

Hockey Ad Network in Canada's National Post

NetShelter's big online reach Small company rivals Internet's big names

David George-Cosh and Grant Surridge, Financial Post Published: Monday, February 02, 2009

Aaron Lynett / National Post

NetShelter Technology Media's offices in the sleepy Toronto suburb of Markham are a world away from Silicon Valley. But it is from such modest surroundings that Peyman and Pirouz Nilforoush operate an online empire that rivals some of the biggest names on the Internet.

The two brothers started the company while in their teens, using a \$10,000 loan from their father. They steered NetShelter through the dotcom bust into an advertising network serving 150 technology blogs that reach 74 million unique visitors each month, according to comScore Inc.

That audience tops such giants as The New York Times and CBS Interactive Inc.'s CNET.

"We are an enabler," said Peyman, 28, the company's chief executive. "Our focus is to build value for marketers and publishers, which will then trickle off to the consumer as well."

The brothers Nilforoush call NetShelter a media company, but in essence NetShelter is an advertising network. Ad networks allow marketers to buy ads across several Web sites at one time. Some networks pay their sites upfront and keep the ad revenue.

Still others, such as NetShelter, split the ad money with their sites.

NetShelter uses the so-called vertical approach. By clumping together similar Web sites -- technology blogs in this case -- they deliver a highly targeted audience and charge premium advertising rates.

NetShelter does not own any of the 150 blogs in its network. Rather it acts like an agent, leveraging the breadth of the network to sign advertising deals with heavyweights such as Microsoft Corp., Research In Motion Ltd. and Verizon Communications Inc. for rates between \$10 and \$65 CPM.

"The way search engine algorithms work is that it gives top billing to those Web sites that provide specific information," said Pirouz, 23, NetShelter's president. "If you're looking for laptop reviews, for example, there's a pretty good chance you're going to visit one of our sites."

Joining an ad network benefits small Web publishers that lack the time and money to promote their sites. NetShelter takes the traditional model a step further and encourages its partners to look at cross-promotional opportunities whenever possible.

"It's a lot different than your average, 'Oh, this is my ad agency' relationship," says Joel Evans, who runs the NetShelter partner site Geek.com. The company now has sales offices in San Francisco and New York, because most of its publishing partners and advertising sales originate south of the border.

Last November, a consortium of venture capital funds, including JLA Venture Partners, Rho Canada Partners and Growthworks Capital, invested \$11.2-million to acquire a minority stake in the company. The investment comes at a time when venture capital in Canada is scarce.

"You're a little skeptical because there's so many ad networks out there and there's so many people looking at this space, both from the traditional outlets and the larger incumbents such as Google and Microsoft," said Tim Lee, Growthworks senior vice-president of investments.

"What really gets you is the financials. These guys have really built a great business from a top-line perspective."

There are about 300 online ad networks trying to carve their niche at a time when growth in online ad spending shows signs of slowing.

RBC Capital Markets Internet analyst Ross Sandler told The Wall Street Journal last October that some ad networks are in "severe trouble" and could fold in 2009.

The key challenge for an ad network is achieving scale. Craig Swerdloff started the U.S.-based Hockey Ad Network in December. So far, the network has signed up about 20 hockey-related blogs. Success is "really about the audience," he said, "and trying to aggregate the same type of eyeballs."

His goal is to build a critical mass of sites with a large enough audience that will attract top hockey equipment manufacturers as advertisers.

NetShelter is a private company and does not discuss its financials, but Messrs. Nilforoush say they have revenue in the tens of millions. The fact that spending on technology advertising has so far held up has not hurt either.

The founders of NetShelter hope to reach the same lofty heights as Glam Media, an online advertising platform focused on fashion-orientated brands whose valuation is rumoured to be upward of US\$500-million.

And the economic downtown is simply an opportunity to gain an edge over rivals, says the elder Nilforoush.

"Our goal is to post revenue of \$100-million in five years."

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