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NexTag surviving, thriving

OJHA'S DETERMINATION HELPS RESCUE NEXTAG FROM DOT-COM CRASH

By Matt Marshall
 Mercury News

In late 2000, Purnendu Ojha's online shopping company, NexTag, seemed like just another dot-bomb: The San Mateo start-up had burned through all its money and faced \$700,000 in debt. Ojha gave his employees a two-month notice of life.

But instead of closing shop, Ojha and three or four executives hunkered down. They took serious pay cuts -- 85 percent in his case. They survived with a staff of 16, down from 55, and relentlessly tinkered with their business model.

Now, NexTag is growing and thriving. It has been profitable every quarter since 2001 and boasts 250 employees, up 130 from a year ago.

It has quietly emerged as a player in the front ranks of online comparative shopping -- having ditched two of its early quirky business strategies, including one where it sought to match retailers with buyers who would bid for products. There's word in venture capital circles that NexTag is in shape to go public soon -- even if Ojha rules out any such plans for now.

"They've built a nice business," said Scott Kessler, Internet analyst at Standard & Poor's. "I see no signs of them slowing down," agreed Chris Sherman, a writer at Search Engine Watch, who has studied the sector.

Venture capitalist Gary Morgenthaler credits Ojha for his determination. After backing NexTag in the early years, Morgenthaler Ventures waited until December 2000 to invest \$1.6 million more -- only after most employees had already fled. He says every other CEO among the start-ups his firm has supported would have balked at such a belt-tightening.

"Bottom line, these guys made significant personal sacrifice because they believed in business, and were determined to succeed," Morgenthaler said.

Volatile sector

But Ojha says he took the pay cut purely to save the company. Together with co-founder Rafael Ortiz, Ojha still owns at least a third of the company and says it's absurd to talk of sacrifice with such significant financial stakes at play.

"We're focused on trying to build a very large public company," Ojha said.

It's a competitive field. NexTag finds itself in a race among a handful of other tough players: There's the Brisbane public company Shopping.com, and privately held Shopzilla and PriceGrabber. There are big companies such as Yahoo, which has Yahoo Shopping, and Google, with Froogle.

Traffic and survey statistics for the sector are highly volatile; it is difficult to decipher which company is really on top. But one leader, Shopping.com, says it is earning \$100 million a year in revenue, and NexTag says its revenues are similar.

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Ojha says, however, that his company's revenue growth is accelerating, recently approaching 200 percent a year.

Even Iggy Fanlo, chief revenue officer at Shopping.com, concedes that NexTag has done well, especially considering its wrenching changes in course earlier on. "They survived the storm," Fanlo said. "They're scrappy."

In particular, Fanlo said he is impressed by NexTag's emphasis on financial services and success in mortgage offerings -- and by its forays into travel and hotels. It has cars, too. However, Fanlo said there's room to improve on the limited results that NexTag provides in the mortgage area, and that Shopping will unleash its own finance and hotel products over the next six to eight weeks, which he claimed would "blow out the competition."

Lessons learned

But Ojha's reserve also stems from excesses learned from NexTag's past, and by others who have fallen by the wayside. While the India-born Ojha previously had years of experience at Kodak, neither he nor Ortiz had ever run a company before. Ortiz, now NexTag's vice president of marketing, said the company's splurge on advertising campaigns during the bubble era was misguided. "It took us a while to learn the basics," he said.

Now the company culture seems almost ascetic. There's no obvious company sign on NexTag's building, which sits on a nondescript side street off El Camino Real. The offices are tucked anonymously inside a Charles Schwab building, across the street from a funeral chapel.

Even Garth Chouteau, the head of public relations who was hired just four months ago, said he didn't know what he was getting into. Until recently, NexTag had done no traditional advertising. It has started to market itself aggressively on Google and Yahoo, posting ads besides the search results that people get when typing certain product words. It has also just launched a few late-night TV commercials.

Still, Chouteau would love to go into higher gear: "It's not in their blood," said the fast-talking Chouteau, who carries purple shades on his head. "I wanted to blow the doors off. I told them, 'I could lie, cheat and steal a little bit for you, you know?'" Instead, they told him to be even more conservative: "No. If anything, cut the numbers back a little bit," he said they told him.

Discipline, humility

Most analysts also remark on the lack of a concerted marketing effort: "They don't get a lot of press, but they do seem to be in the hunt behind the big guys," said Patti Freeman Evans, an analyst with Jupiter Research. Standard & Poor's Kessler noted: "They have a certain level of discipline and humility that is refreshing."

Others, though, suggest the strategy is purposeful. NexTag is taking Google's early strategy, says Sherman, which is "trying to get exposure through buzz." He said NexTag has remained in the front pack of competitors, and while it's hard to know exactly how it is performing, the market's growth is lifting all boats. "They'll do well, even if they stand still," he said.

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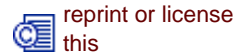
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