REALTORS of the WEB

Mike Zapolin and Andrew Miller were two brokers on the grey track on Wall Street, but they then realized the potential of the internet, bought a few domain names for pennies and sold them for millions of dollars to become the realtor barons of the net.

What properties are they buying now?

Once upon a time, Mike Zapolin and Andrew Miller were not Zappy and Andy, the cool and creative guys who juggle domain names on the internet, buying cheap and selling quick for multi-digit profits; the guys turning over hundreds of millions of dollars, meeting rock stars, actors, and models while doing so, producing their own television show of a special breed that they invented. They are the stars of the one of the sought-after panels at the Milken Institute Global Conference in Los Angeles, where they discussed building internet brand names. They are spreading the gospel of great opportunities to be found in the market of domain names. In other words, they are the guys who know how to start with almost nothing and get rich from the Web.

Once, they were young tie-wearing and ambitious investment bankers on Wall Street who worked at Drexel Burnham Lambert for the pop star of investment banking of the time – Michael Milken, the inventor of the junk bond and otherwise known as the Junk Bond King. They then went to work for Bear Stearns. Nothing too spectacular.

But then, in the mid-1990s, Zapolin and Miller got fed up with their grey careers. They wanted to do something more entrepreneurial, more exciting, more suited to their restless spirits; something that Zapolin calls with self irony "my egomania". At the time, the regulatory barriers were falling at American television, and it was opened to new directions and to new people. The duo founded a company that bought air-time and also produced its own television show as well as advertisements, which it filled with their own hybrid creation, a combination of a regular show with advertising – the genre that would become known as the infomercial. In this context, they created a show with and for Diana Ross, came out with a movie intended to restore the glory of the Grateful Dead ("The Long Strange Trip Continues", they called it), and made programs for violinist Itzhak Perlman, the New York Jets football team, Time Warner, and others.

But the price of air-time skyrocketed and production costs soared. Zapolin reminisces, "We began thinking, where can we get our own private network, where we could broadcast our programs 24 hours a day? We saw the internet and thought, wow, that's it! It wasn't free, but it was cheap, and it was interactive. As direct marketers, we thought that if we could only find a way to cause people to come to our site, we'd already be able keep them because of our content."

The way to get there, the two men knew, was via generic domain names that top the search engines' results and are remembered by surfers. The decided that if they were already going to go for it, they wanted to do so big-time.

"We thought that if we were going to build a site from these generic assets, they had to be big enough that the effort would pay off," explains Zapolin. "We didn't want to build 'formicatables. com'.

"Companies that target broad audiences understand today that to reach the end consumer they have must have assets in certain domain names, because the domain name determines your Google ranking, which is critical."

Zapolin (left) and Miller this week in Boston: "I don't want my daughter to come to me in ten or twelve years and ask me, 'So you were alive when the internet happened, and you didn't do anything with it? What were you thinking??"

So, in 1998, we created something called the ‘Super Bowl test’ – a test that easily determines on the basis of Super Bowl advertisements, what are the top selling products, because only for these would advertisers invest the huge sums necessary for the most expensive air-time in the United States. The list included cars, computers, diamonds, and at the top of the list – beer."

They went to look for the owner of the site Beer.com, and found "a 21-year old kid who had filled his website with pictures of himself and his friends after they had drunk a little too much, with all kinds of posters down the side, and an top was written ‘We need advertisements so that we can buy more beer’," relates Zapolin.

The two men teamed up with a partner who was already active in the liquor promotion business, and already had a number of sponsors in the beer industry, and together they decided to buy the website. In 1998, they contacted the young man and offered him $80,000 for 80% of Beer.com.

"We wanted him to keep 20%," says Zapolin, "because we knew that the value of the site would rise fast, and we didn’t want him to feel that we had screwed him. People told us, ‘Paying $80,000 for Beer.com is the silliest thing we ever heard of."

Zapolin and Miller developed the website, turned it into a beer portal with information such as how to turn your private kitchen into a brewery; they distributed free Beer.com emails to surfers; and they developed a chat community about types of beer, lagers, and ales, as well as life in general. "In effect, we founded a type of early social network," reminisces Miller, "only no one knew to call it that yet."

At the next stage, the two men made sure that the beer industry learned about the venture. As they expected, beer companies were enthusiastic, advertised on the site, and

"When we bought Beer.com, we were told that this was the silliest thing. After we sold it for $7 million, we called the kid from whom we bought the domain, and told him, ‘Hey, by the way, you just made a profit of $1.4 million’."

one day the two men received a phone call from McKinsey & Co. on behalf of one of the world’s largest breweries, Interbrew (now Inbev, after merging with another giant brewery (AmBev), whose cellar included some strong brands, including Becks, Hoegarden, Leff, and Stella Artois.

The brewery realized that if it could attract some of the website’s surfers to its labels, "it would be a $1 billion swing." Zapolin and Miller thought about a partnership, but the brewery said, "There’s no power. We can invest in the site amounts of money that you can’t even dream of, so why don’t you simply sell, and be done with it?"

Zapolin remembers, "90 days later, we sold them the site for $7 million, and then we called the kid from whom we bought the domain, and told him, ‘Hey, by the way, you just made a profit of $1.4 million’."

Without institutional investors
With the beer money, and more importantly, with the experience gained, Zapolin and Miller went back to their Super Bowl list, and their fingers stopped at another word – diamonds. "In the diamond industry," they say, "there is a long way and many hands from the mine of de Beers or whoever – the polisher, the distributor – until the sale to the final consumer. We thought that if the internet could shrink part of the process, it could help both consumers and miners."

The domain name Diamond.com was taken, like all the sought-after generic names, but its owners had no connection with the diamond industry. It was a software company called S.I. Diamond Technology. Zapolin and Miller called the company, presented their model, which had worked for Beer.com, and asked to be allowed to work on the basis of the already proven model.

A virtual business
The Israeli managers of Phone.com are changing the rules of the game

Two Israelis, former managers at VocalTec Communications Ltd., Ari Rabban and Alon Cohen, are working for the group of internet assets of Zapolin and Miller, at Phone.com, a website whose primary current business is to provide the "virtual office" telephone service, and the operation of cheap international calls via a local access number. There are also Israeli customers (including Rabban's mother), but they may not market in Israel because they are not defined as an authorized operator there. Rabban is the CEO of the company, and Cohen is its executive vice president and CTO. Another investor, and the company chairman, is Michael Mann, through Washington VC, a private investment fund for start-ups that he founded.

Rabban, who worked for AT&T and Lucent Technologies before joining VocalTec as vice president of corporate development and marketing, was introduced to Zapolin and Miller by Jeff Pulver. The virtual office of Phone.com is intended for small businesses, managed from home or a small office, for whom even a switchboard is too expensive, as well as for business partners each of whom works from home, sometimes not even in the same city or even in the same country.

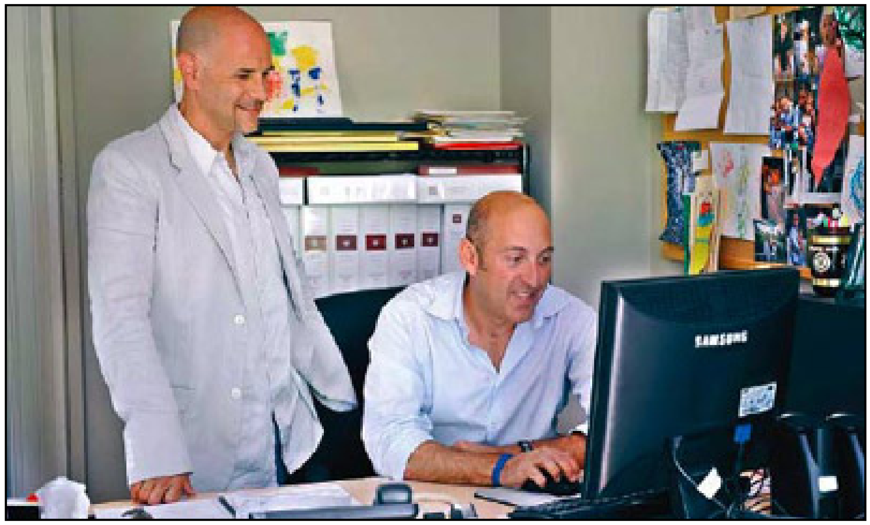
"They get a virtual number," explains Rabban, "which can be a local number or a 1-800 number, and they can build the business system from any computer."

It is possible to record alone or with the help of "professional voices", which is generally convenient, especially for someone who is not an American but who wants to sell in the American market. The possibilities are many. The recording says, "For marketing, press 1", and "1" is the home of one of the partners, and if he does not answer, the call is automatically transferred to his cellular phone, and he can transfer the call to another extension, to a person who usually sits somewhere else.

The service was not invented by Phone.com, but thanks to low operating costs, it can charge $10 per month for a volume of activity of up to several hundred minutes per month. How is this possible? Partly thanks to extensive outsourcing, but mostly because there is virtually no need for marketing because the generic name, Phone.com, does most of the work and jumps it to the top of the lists when someone Googles for such a service. It turns out that the word "phone" is one of the most common search words, more than "cellular" or "telephone", and unquestionably more than "VoIP".

Globes: Are there Israeli customers who use the virtual office?
"Yes, there are small businesses, not necessarily in high tech, that have customers in the United States, and they sometimes also have a branch there, so you press 1 and reach David in New York, and press 2 to reach Yossi in Tel Aviv.

Globes: So I can sit in my kitchen in Tel Aviv, open a business for eggplant recipes, and be perceived by people as a multinational corporation based in New York?
"Yes. That's the beauty of it. Today, there's no reason not to be perceived as a professional."



Miller (right) and Zapolin: "Someone asked me where he ought to put his money. I said, buy a domain name, and you'll triple or quadruple your investment."

"We bought it from them for a few hundred thousand dollars, and in this case too, they kept 20%," relates Zapolin. "Later, Andy and I went and saw people in the diamond industry, including Israeli diamond merchant Benny Steinmetz. He liked us."

Thanks to the immediate chemistry created, they offered Steinmetz to be the owner of Diamond.com and the deal was closed virtually overnight. In the end, the site did not take off as hoped, but nonetheless, several years later, the domain name was sold for $7.5 million.

Next in line in the Super Bowl list was computers. Computer.com, which they also advertised at the Super Bowl with a clip that deliberately appeared to be an amateur home video, a kind of spoof of the personal documentary advertising genre, in which Zapolin personally starred alongside all kinds of people who presented themselves as his relatives and who said that this was a company where it was possible to buy computers parts. The advertisement which became, at least according to Zapolin, the most watched Super Bowl advertisement of all time, can still be seen on YouTube. As for Computer.com, the domain was sold to Office Depot for an undisclosed figure, but one can guess that it includes at least six zeros.

While the two men were making progress in their business, the dot.com bubble burst and the entire business of inventory, warehousing, and the transportation cost of goods suddenly seemed complicated and expensive. "In the mid 1990s," says Zapolin, "I began to study Kabala (there is a Kabala.com, which has, among other things, a recommendation for a book Zapolin co-authored with Deepak Chopra, "Ask the Kabala Oracle Cards"), and someone told me, 'Why don't you take some basic principles of the Kabala and try them in business?' I thought about the Kabalistic principle of reduction, 'less is more', and concluded that the parallel in my business is the virtual product, something with no physical existence."

What could be more virtual than the issuing of credit cards? There are no warehouses, no inventory, no returns. They decided to buy the domain name Creditcard.com, and to create a search engine that would help surfers choose the most suitable credit card on the basis of the customers' personal data: their credit status, whether they have mileage points at airlines, and even types of benefits most important to them.

The business grew and generated quite a lot of revenue for Zapolin and Miller and for their partners. Their mode of operation, from the outset, was to pick partners in the industry or to obtain financing from angels, and from is known as "friends and family", without turning to institutional investors or venture capital funds. This way, they could keep under wraps the amount of revenue and the size of their business.

Investors included Michael Mann, the founder of Buydomain.com, the second largest e-commerce site for domain names, which was sold two years ago for $100 million generating a fortune that could be channeled to investment; Jeff Pulver, the energetic start-up entrepreneur, who is also known in Israel for his parties; and Jeff Taylor, the founder of the successful job search site, Monster. com, which is traded on Nasdaq at a market cap of $3.3 billion.

In 2004, in view of the fact that Creditcard.com had honed Zapolin and Miller's skills in the search engine business, they decided that they wanted to expand their portfolio, buy more companies, and become not just a trader in domain names, but also to develop more businesses that they would continue to manage. To do so, they sold Creditcard.com for several million dollars to Click Success, which then developed and boosted traffic on the website, before selling it for $134 million.

Globes: Do you regret for selling too soon?
Zapolin: "We Kabalists. We never look back."
Miller: "Yes, we should have created this activity. I wish I had a crystal ball, but there wasn't one. The reason we don't try jump off the balcony from sorrow is that we did there was a training exercise and preparation for what we're doing now."

The internet is still full of opportunities
On the balcony of the Beverly Hilton, Zapolin and Miller wonder why Israelis and Palestinians are still "stuck" favoring some piece of land over living in peace and security. Although the company they founded is called Internet Real Estate Group LLC, it of course has nothing to do with real estate, land or physical properties. It is entirely comprised of valuable intellectual property, a series of generic domain names, such as Music. com, Phone.com, Chocolate.com, Jeans.com, and Patents.com.

Even though it sometimes seems as if the internet has reached saturation, Miller (43) and Zapolin (41), are convinced that these are still early days and that there are big opportunities of the Web with a lot virgin territory still left to conquer. Domain names, they assert, are likely to become a huge opportunity for anyone, even if they lack a financial background and have little cash in hand. In this sense, there is something very democratic about this game. Zapolin and Miller have sold domain times for 25 times and sometimes 50 times the prices they paid for them.

"We don't even make an effort to sell. They come to us with offers to buy," says Zapolin. "Companies that target broad audiences understand today that to reach the end consumer they have must have assets in certain domain names, because the domain name, in part, determines your Google ranking, which is critical."

He adds, "We recently heard about a deal, unconnected with us, in which the domain name DataRecovery.com was sold to a data recovery company for $1.7 million. I wouldn't have paid more than $50,000 for such a name, but for this company, this amount was quite logical. For them, it was an asset for the next ten years."

"Recently," Miller interjects, "Someone asked me where he ought to put his money; whether to buy an index-linked bond or something like that. I said, buy a domain name, and you'll triple or quadruple your investment over the coming years. This is also a wonderful asset to buy and sell, as well as a wonderful business that can grow exponentially."

"Today, I can take a domain name and wait until it is needed," continues Zapolin. "For example, Petcloning.com. No one is cloning pets yet, but someone is working on it, and it will happen one. Meanwhile, it's possible to create the website that talks about such cloning, and people can upload items from their experiences or put up pictures of their favorite pets that have died and which they would have liked to have cloned. And there's a guy who set up from his room at home a dating site called Plentyoffish.com, where people upload their profiles, create content, while he, for his part, reaps a few million dollars from advertising."

Linking to the audience's taste
It is no coincidence that Zapolin mentions surfers creating content. This is the model that has turned one of Zapolin and his sites, Music.com to an especially popular and successful site, including at the commercial level.

"Music and internet are married for life," says Zapolin, "and what better way is there to create a community that can share loves and hates, where people can find people with similar tastes, who love the same kind of music?

"We discovered something amazing. People have strong emotions about the music they love, whether it's Israeli music, Goth, or Rap, and they create a kind of musical democracy. The record companies are focused on the time when their top ten lists dictated what they should love, while the bloggers on the site create personal listening lists so that people are also exposed to other artists and songs."

Globes: How do you tempt advertisers?
"We tell advertisers, such as Saturn Cars, 'Hey, Saturn, we have here an audience on the basis of whose music taste we know comprises half a million women aged 30-35 who live a certain lifestyle, and may consider buying a car suited to this lifestyle."

Does it work?
"Companies spend millions of dollars on services that examine which music people download from the internet in order to 'link up' to the audience's taste, but they have no idea who are the people who download certain music, and what they like. We can provide them with a lot more information.

First, because you can tell a great deal about a person on the basis of their musical taste, and second because people provide us with information about themselves. The ability to contact people in a more focused way, via advertising, say, at a part of ‘the audience that listens to rap’ is a powerful tool for advertisers."

These days, Zapolin and Miller are testing a slightly different model, which requires all the expertise they acquired at search engines, as well as new skills. This is Patents.com, which will create a database of every patent registered in the world, and an arena for peoples seeking to trade in patents.

Zapolin and Miller bought the name from two lawyers who had dissolved their partnership and neither of which had enough money to buy out the other. They therefore decided to put the website up for a tender and see how much they would be offered. "Andy and I called them and told them, ‘Listen, why bother to put up your site for a tender? We’ll give you $1.1 million with an immediate transfer to your account," relates Zapolin.

However, buying the name wasn’t enough for what Zapolin and Miller had in mind. The next stage was to buy a company called Patent Monkey, which owned patent search technology, and then to reach an exclusive agreement with another company that owned translation software. The future result: a database of 30 million patents from the United States, Asia, and Europe in 15 languages, which creates 450 million documents.

Use of the search engine will be gratis, and the idea is to generate revenue from advertising, especially by patent registrars and attorney who deal with intellectual property, as well as a percentage of the transactions made in the arena, similar to the model of eBay. Zapolin and Milleris site will also contact people whose patents are about to expire and they’ll offer them to sell it before that happens.

"This is an amazing time to be living in," concludes Zapolin. "My daughters are seven and two, and I don’t want my daughter to come to me in ten or twelve years and ask me, ‘So you were alive when the internet happened, and you didn’t do anything with it? What were you thinking?"

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