



Small business pays off big

Homestead stakes claim with web sites

CEO KITCH:
Prefers not to
drive like his
grandfather

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Homestead Technologies, a high-flying dot-com nearly grounded in the bust, is soaring once again.

Four years after shifting the focus of its do-it-yourself web site building business from the general public to small businesses, the strategy is bearing juicy fruit. The profitable Menlo Park company is boasting high-speed revenue growth, packing in new employees and giving giant rivals something to worry about.

CEO Justin Kitch co-founded the company in 1998 to help high school students, hobbyists, retailers and other non-techies create web sites by dragging and dropping elements onto their own web pages. Millions of users flocked to the free advertising based site in its early days and investors at Draper Fisher Jurvetson,

Redpoint Ventures, Goldman Sachs and Intel poured \$70 million into the company — nearly all of it during the boom. Insiders cajoled Kitch, then 27, to take the company public in 1999. But the self-described Kansas farm boy said his conservative financial instincts balked at the notion.

“You want me to predict my earnings for the next couple of years with a straight face?” he remembers thinking of public company requirements. “I felt the whole concept of investment banking and going public was a house of cards for those early IPOs.”

By 2001, advertisers began folding. Kitch converted Homestead to a subscription service, focusing on creating new web site publishing, design, hosting and marketing tools for its busiest user group — small businesses. By 2002, modest revenue flowed in and the firm began turn-

ing a profit, which it has maintained since.

Small business focus

In the meantime, the number of small businesses in the U.S. multiplied. Official estimates vary. In 2005, research firm IDC counted 8.1 million small businesses, those employing fewer than 100 people. Kitch said there are roughly 10 million small business in the U.S. in addition to 10 million home businesses — all of which he sees as potential customers. The Small Business Administration counted roughly half a million small business starts in 2005, with roughly the same amount of closures the same year.

“I think it’s a very stable customer base,” Redpoint Managing Partner and Homestead board member Tim Haley said. “In many cases, small businesses are brick-and-mortar stores and then add to that the growing number of web-based

HOMESTEAD: Firm grows deeper roots

businesses. It's definitely a growth industry."

To serve its clients, Homestead added the QuickSite Gallery to its product line-up last spring to help small businesses make professional looking sites on-the-cheap. Users pick from among 2,500 professionally designed web sites and fill in the details, colors and photos.

Due in part to industry growth and its expanding product line, the company earned roughly a half million dollars on revenue of \$12 million in 2005, and in 2006 sources close to the company expect it will earn roughly the same on revenue between \$16 and \$20 million. Kitch said Homestead is now more focused on revenue growth

than profitability, but gauging exactly how fast the company should expand concerns him.

"If you speed up, and then hit the brake, you end up driving the car like my grandfather," he said. "I get a headache after driving one mile with him. That's not the way to run a company."

Growing firm

For now, he's mostly laying off the brakes. Haley said the profitable company has plenty of cash and no need to raise funds any time soon, though it may consider making acquisitions in the future. The company's cash pile comes, in part, from the 2005 sale of its photo posting



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KITCH: Instinct told him not to seek shelter in "house of cards" during boom.

service, Photosite, to United Online for about \$10 million. Its headcount continues to expand, from 76 in November to 110 today; more than 30 of the new hires are part of a commission-based phone sales team. Kitch plans to add 20 more employees by the end of the year.

For all its growth, Homestead is still puny compared to its mammoth rivals, including Microsoft and Yahoo. Kitch says his competitors' resources can't be underestimated but believes his products are better tailored for the small business market.

Small business expert Ramon Ray said, "Homestead can carve itself a very good piece of the small business online services pie if it keeps its customers loyal ... continues to innovate and offer customers more robust services and gets the word out telling why Homestead is better."

Haley agreed: "Getting out there and marketing to our customer base is always the biggest challenge."

Adrienne Sanders covers technology for the San Francisco Business Times. ■