Customer Pricing

Monthly Subscription / Per Lead Model

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Real-Estate Agent Annual Income - Breakdown

On an Average US agent annually:

- Sells 10 houses of median price $350,000.
- Receives 6% commission(buyer, seller agent or new homes) - $21,000
    - 1% for marketing - $3,500
    - 5% profit - $17,500
- Thus, an agent can see value in Zillow service if we can help him sell a home much less than current average marketing expenditure($3500) per house.

Ref: https://www.zillow.com/agent-resources/blog/how-do-real-estate-agents-get-paid/

Objectives & Strategies

Business Model Objective - To Ensure:

- Providing long-term revenue opportunity over short-term.
- Providing the best experience for the customer possible.

Business Models Considered:

- Per Community/Month
- Per Community/Lead

Per community/month

Customer Profit Equation - 2018

- Zillow lead to home-closing conversion rate: ~4% (25 leads per 1 closing)
- In 2018 we estimated 63 leads will be received and 2.5 home closing.

- Annual subscription fee per community: $400 * 12 → **$48,000**
- Agent annual commission: 2.5 * $21,000 → $52,500
- Agent annual profit from Zillow leads - **$4,500**

Note: Zillow conversion lead to home-closing conversion rate: ~4% (Ref)

Per community/month

Customer Profit Equation - 2020

- Zillow lead to home-closing conversion rate: ~4% (25 leads per 1 closing)
- In 2020 we estimated 140 leads will be received and 5.61 home closing.

- Annual subscription fee per community: $400 * 12 → **$48,000**
- Agent annual commission: 5.61 * $21,000 → $117,810
- Agent annual profit from Zillow leads - **$69,810**

Pay Per Lead

Customer Profit Equation - 2018

- Zillow lead to home-closing conversion rate: ~4% (25 leads per 1 closing)
- In 2018 we estimated 63 leads will be received and 2.5 home closing.

- Annual subscription fee per community: $40 * 63 → **$2,520**
- Agent annual commission: 2.5 * $21,000 → $52,500
- Agent annual profit from Zillow leads - **$49,980**

Pay Per Lead

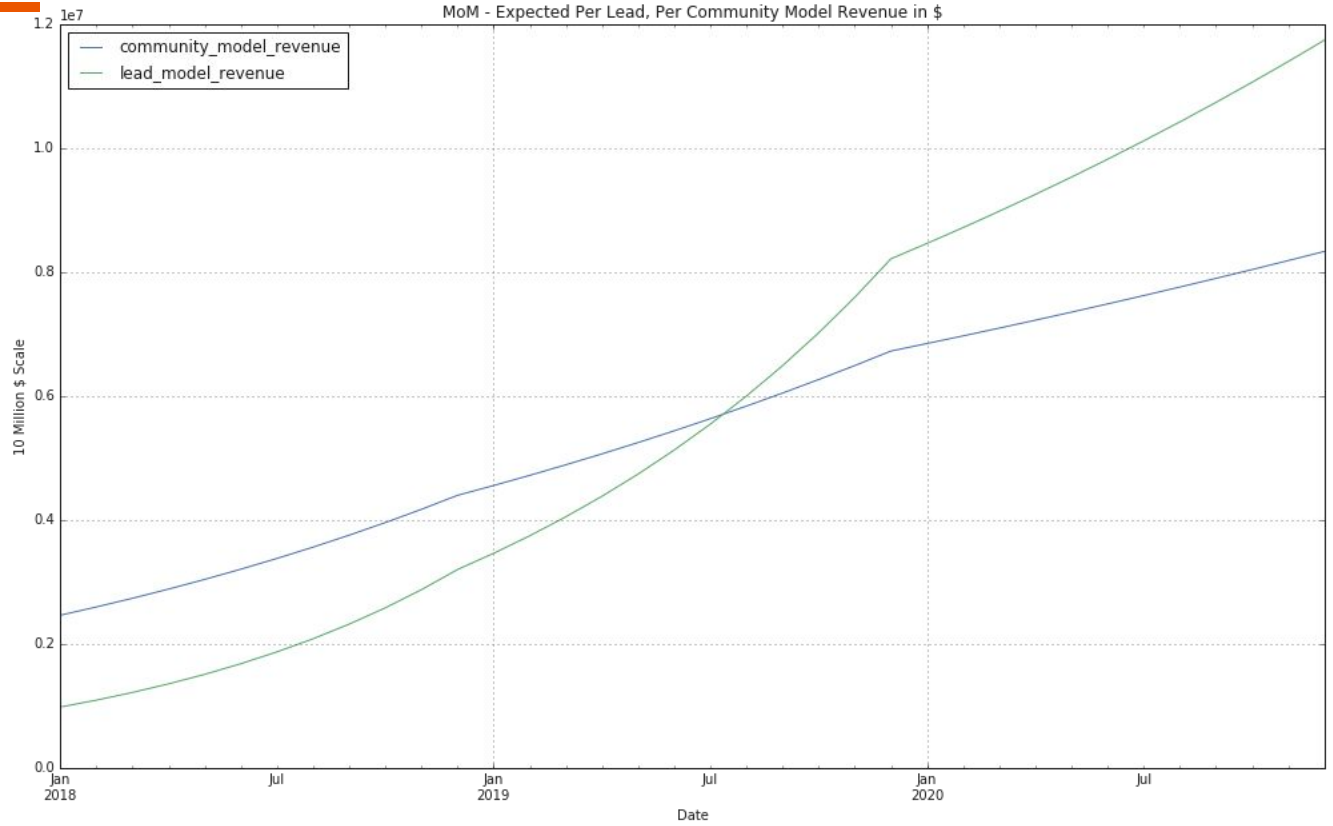
Customer Profit Equation - 2020

- Zillow lead to home-closing conversion rate: ~4% (25 leads per 1 closing)
- In 2020 we estimated 140 leads will be received and 5.61 home closings.

- Annual subscription fee per community: $40 * 140 → **$5,600**
- Agent annual commission: 5.61 * $21,000 → $117,810
- Agent annual profit from Zillow leads - **$112,210**

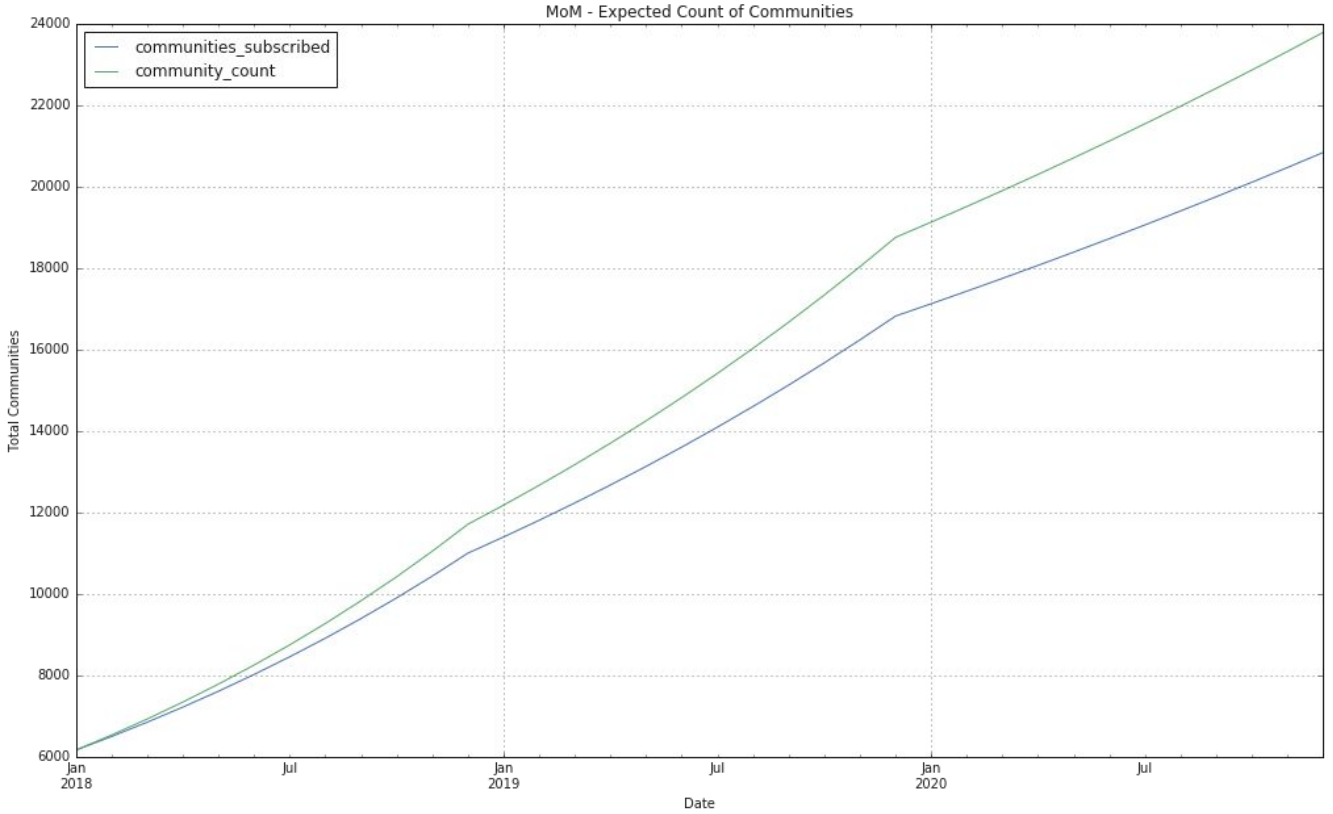
Exp. Monthly % Revenue Growth - 2018 Jan - 2020 Dec

Per Lead Model : 1089.34% ($10,760,921), Per Community Model: 237.70% ($5,870,355)



Expected Communities Growth from Jan 2018 - Dec 2020

Per Lead Model : 285.45% (17623 Comm.), Per Community Model: 237.70% (14675 Commn.)



Advantages to the Business

Per community/month

- No prior promise to deliver N leads per month.
- Revenue model is not directly dependent on leads generated.
- Generate more revenue in-spite of low lead generation.

Per lead model

- More customers would like to try the product.
- More flexibility - Control of commodity in both ends.
- Low customer churn
- More revenue in long term.

Drawbacks to the Business

Per community/month

- Challenges to reduce customer churn.
- Require more efforts for sales team to on-board new communities.
- May loose profit by providing more value for money in good real-estate markets.

Per lead model

- More efforts towards attracting customer to generate desired amount of leads.
- Revenue is dependent on leads generated and relies on website availability, user experience etc.
- Giving a better chance to customer to try other products alongside and chances to lose business.

Advantages to the Customer

Per community/month

- Agent will receive more value from the year 2020 onwards (<$40 per lead).
- Scope for less decision making towards volume of leads to purchase every month.

Per lead model

- More flexibility - Can purchase the volume of leads based on his experience with Zillow.
- Can avoid overpayment if not sure of the service/value.

Drawbacks to the Customer

Per community/month

- Low Trust - Agent don't know what he gets exactly.
- Paying more for less value initially from 2018-2019 ending.
- No alternative pricing(reduced) in areas with low lead generation/demand.

Per lead model

- Frequently need to make a decision to buy N number of leads or not.
- End up paying more amount than monthly when high lead volume(from Oct 2019).

Recommendation

Over emphasis on long-term revenue and customer satisfaction, “**Pay per lead**” will be a better strategy.

In 2018/2019 with fierce competition in advertising and lead generation platforms including social media like Facebook, Instagram it is important to display customer obsession and improve market reach.

I see a benefit with this model for:

- Allowing more customers to use our product.
- Building a trust factor by charging for usage only.
- Allow user to scale the usage based on his resources.
- Register low/no churn rate, so less sales and promotional efforts.
- Posting steady and higher long term revenue and growth rate.

Concerns

- 4 leads per month here is a very small number. So, some profit equations may seem unreliable.
- Flat amount of leads per month/lead is unrealistic across all communities.
- We are not considering here any seasonal or economic factors like recession.
- Also, area/real-estate market based pricing approach works better.
- Understanding competitors offering is important to choose the model.

Opportunities

Per lead pricing requires accurate pricing per lead towards a community. This can be modelled using past transactional data:

- Estimated house price using in-house price estimation tools like Zestimate.
- Understand hotness of the lead based on the geographic factors.
- Information like Census, neighbourhood data, nearby school ratings, crime rate is helpful.
- Adding profile info. of the lead with his/hers socio-economic indicators.

Demand curve can be developed over sequence of pricing decisions and demand recorded over years. Model using a linear or quadratic expression to identify parameters to maximize the profit.

A/B testing across experiment and control groups would be very indicative of each model performance.

Thank You

Please write your queries to rchin001@odu.edu.