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New Construction Pricing Problem

“Flat Price per Community” vs. “Charge per Lead Received”

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Zillow Offers

Outline

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Overview

Comparison between two possible pricing models based on these priorities:

- Prioritizing long-term revenue over short-term
- Increasing number of listings





Primary Data (January 2016)

Active New Construction
Communities in US

38K

New Construction
Communities on Zillow

6174

Median Sale Price of Home in US

\$350,000

Industry Marketing Expense

%1 (of Sale Price)

Industry Profit after Expense

%5

Leads per Community Per Month

4

Charge per Lead

\$40

Monthly Flat Charge per Community

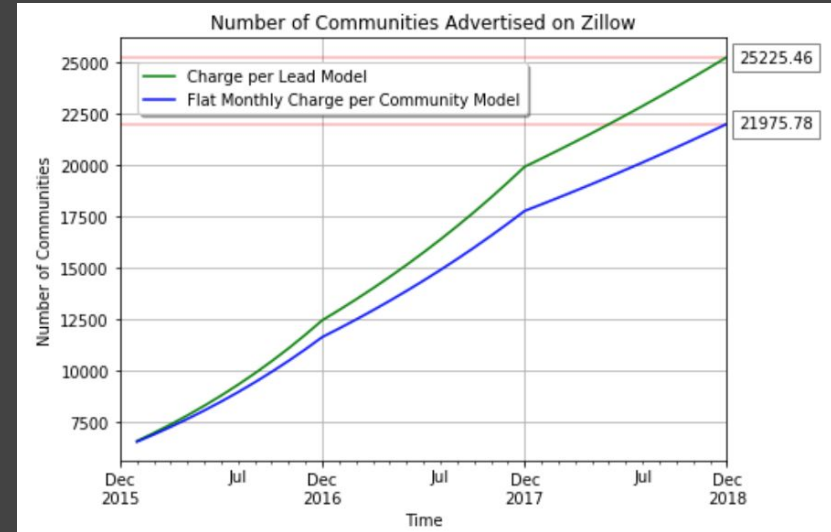
\$400

Trend Analysis 01

		2016 (MoM)	2017 (MoM)	2018 (MoM)
Charge per Lead Model	Leads per community Growth Rate	1.05	1.04	1.01
	Advertised Communities Growth Rate	1.06	1.04	1.02
Flat Monthly Charge per Community	Advertised Communities Growth Rate	1.054	1.036	1.018

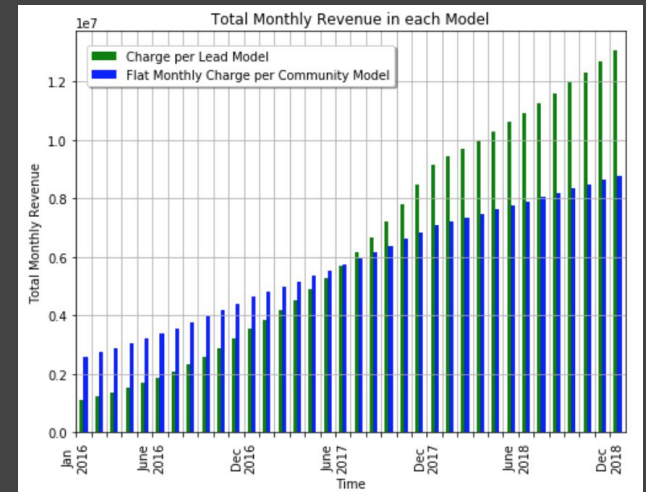
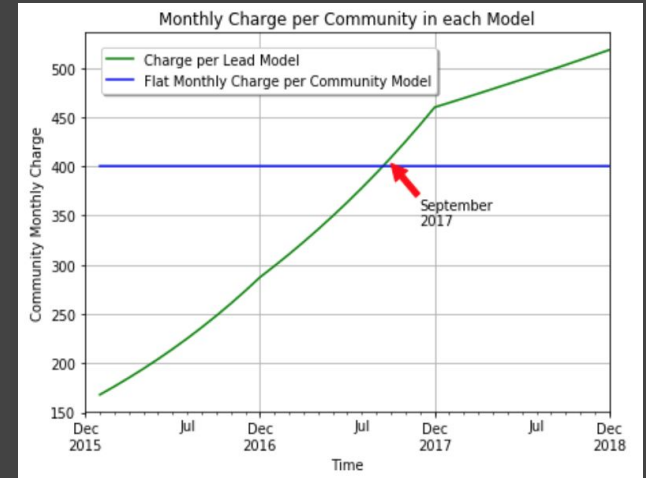
Number of Advertised New Communities on Zillow (Dec 2018):

- Charge per Lead Model **25225**
- Flat Monthly Charge per Community Model **21976**



Trend Analysis 02

- From **September 2017**, charge per lead model has surpassed flat monthly charge per community model in **Monthly Charge per Community**.
- **July 2017** is the first month that Charge per Lead Model made more **Total Monthly Revenue** than Charge per Community model.
- At the end of 2018, the **total monthly revenue** in charge per lead model is almost **48% more** than monthly revenue in flat monthly community charge. *(starting from 58% less in January 2016)*



Trend Analysis 03

- From **June 2018**, **Cumulative Revenue** of charge per lead model has surpassed flat monthly charge per community model.

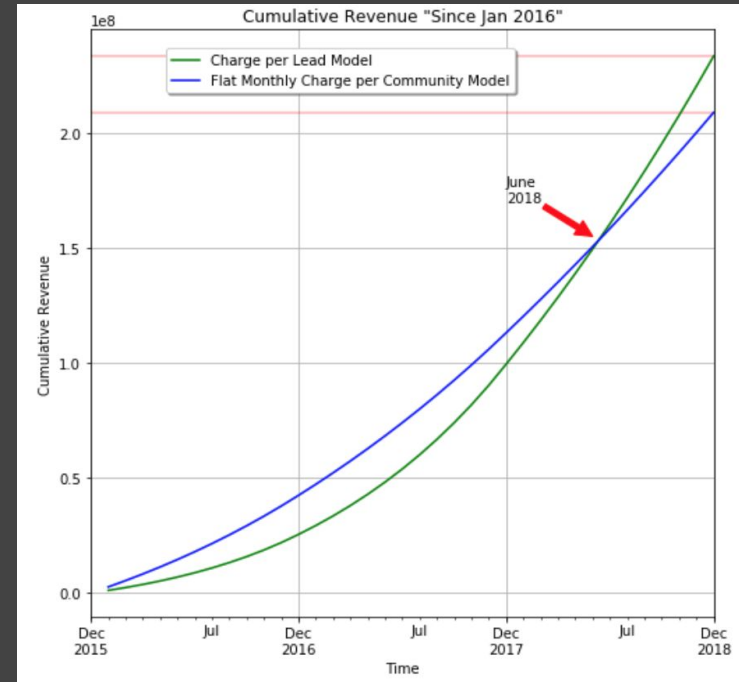
- Cumulative Revenue (Dec 2018):

Charge per Lead Model

\$233 Million

Flat Monthly Charge per Community Model

\$208 Million



Models Comparison

- In the **long-term** “Charge per Lead Received” model has higher “Revenue per Community” and “Total Revenue”, on the other side, in the **short-term** both “Revenue per Community” and “Total Revenue” is higher in “Flat Monthly Charge per Community”.
- The “charge per lead” model, resulted in **more listings** on our platform than “flat community charge”.
- Average marketing expense is \$3500 (1% median sale price of home):

On average houses can pay for our platform less than **9 month** in “Flat Monthly Community”.

In “Charge per Lead Model” the **presence period can be varied over time**. (In the beginning, Jan 2016, they have fund to stay for around **14 months**, but at the end(Dec 2018) they just can pay for maximum **6 months** to stay on our platform.





Opportunities & Concerns

- Due to its flexible charge fee, “Per Lead Received” model can be **more convincing to attract builders.**, especially for cheaper units that have limited budget for expense.
- One concern for “per lead received” model could be **catching up with estimated “Lead Growth Rate” over time** which may not be very easy, and we need sharp, dynamic promoting team on the buyer side.
- The fees (\$40 per lead & \$400 per community/month) can be **customized** based on zip codes (as one important factor in price of house).
- **Quality of provided leads** can be a very crucial factor, especially in low demand location (or season), it would be easier to convince builders to pay more for high-quality leads (guaranteed leads).



Final Thoughts

- According to data and objectives (long-term revenue \$ more listings), "**Charge per Lead Received**" seems better option. However if we have more detailed data, mixed method is absolutely worth considering.
- "Charge per Lead Received" model is more **sensitive** to estimates (2 growth rates are involved in its cash flow) compared to "Flat Monthly Charge per Community" model. Before serious consideration, we need to know **confidence level of estimated growth rates** in order to have more clear image of future and decide between options.
- One unrealistic element in this piece is considering equal rates in various months/seasons through each year. Actually by customizing our final model based on **zip code, price of house, quality of lead, and season** we may both provide better experience for our customers and earn more revenue.



Thank You.

Code and Slides Link:

<https://github.com/rezataeb/Zillow>