Pay Per Community or Pay Per Lead?

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Executive Summary

This report helps answer the question “Should Company’s New Construction sales team charge their customers a flat price per Community or per Lead Received?” The analysis shows Pay Per Lead (PPL) is the optimal pricing strategy for long-term revenue and community listing growth, with a cumulative total revenue by the end of year 2020 of $209.6M to Pay Per Community's (PPC) $198.1M. Sensitivity of the assumptions shows PPL as being more sensitive to growth assumptions, but having an overall probability of 67.1% in producing a better revenue outcome by the end of 2020.

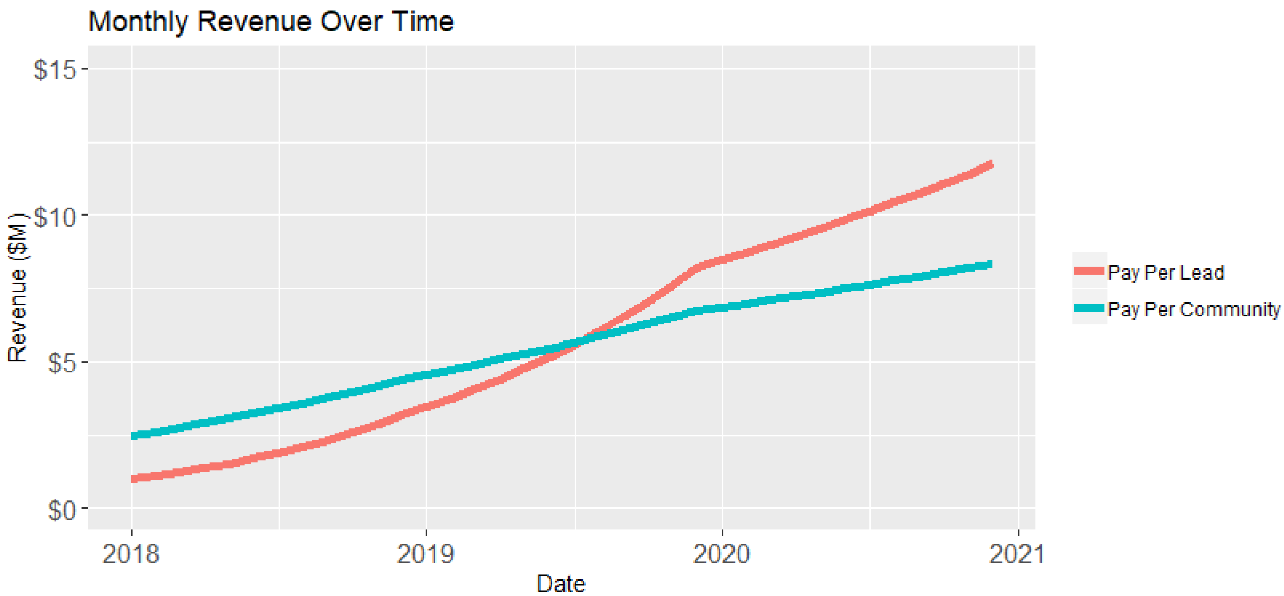
The number of communities subscribed will be larger for PPL than PPC, with 23,793 subscriptions at the end of 2020 compared with Pay Per Community's 20,848 (difference of 2,945). Sensitivity analysis shows the likely difference in PPL vs. PPC is between 900 and 5,700 more communities subscribed. Due to a penalty assumption against PPC, it will never show more communities subscribed then PPL.

The growth in revenue for PPL is directly tied to both the growth in the average number of leads per month and the growth in number of subscriptions, while PPC revenue growth is only tied to the growth in number of subscriptions.

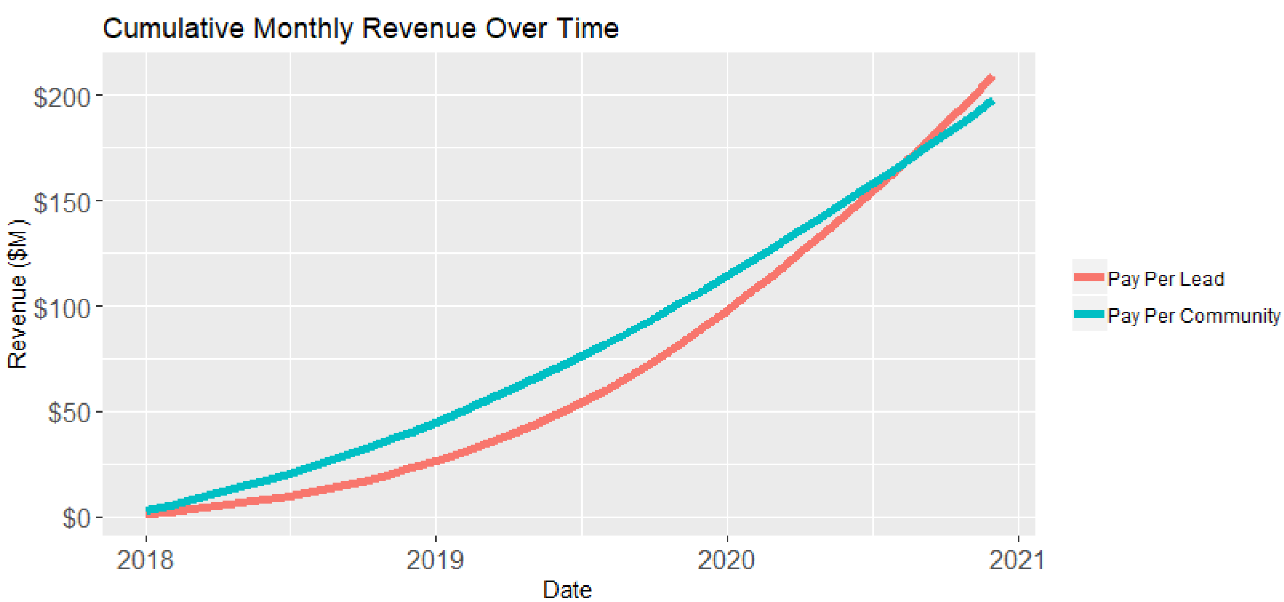
With the overall goals of prioritizing long-term revenue and maximizing number of listings, this analysis concludes Pay Per Lead is the optimal pricing strategy, because it is more likely to provide higher revenue, will subscribe more communities than Pay Per Community, and offers two separate channels to increase revenue.

Revenue Analysis

Monthly revenue for the New Construction sales team starts out higher for Pay Per Community (PPC) than Pay Per Lead (PPL); however, after mid-2019 the expected revenue for PPL overtakes PPC.

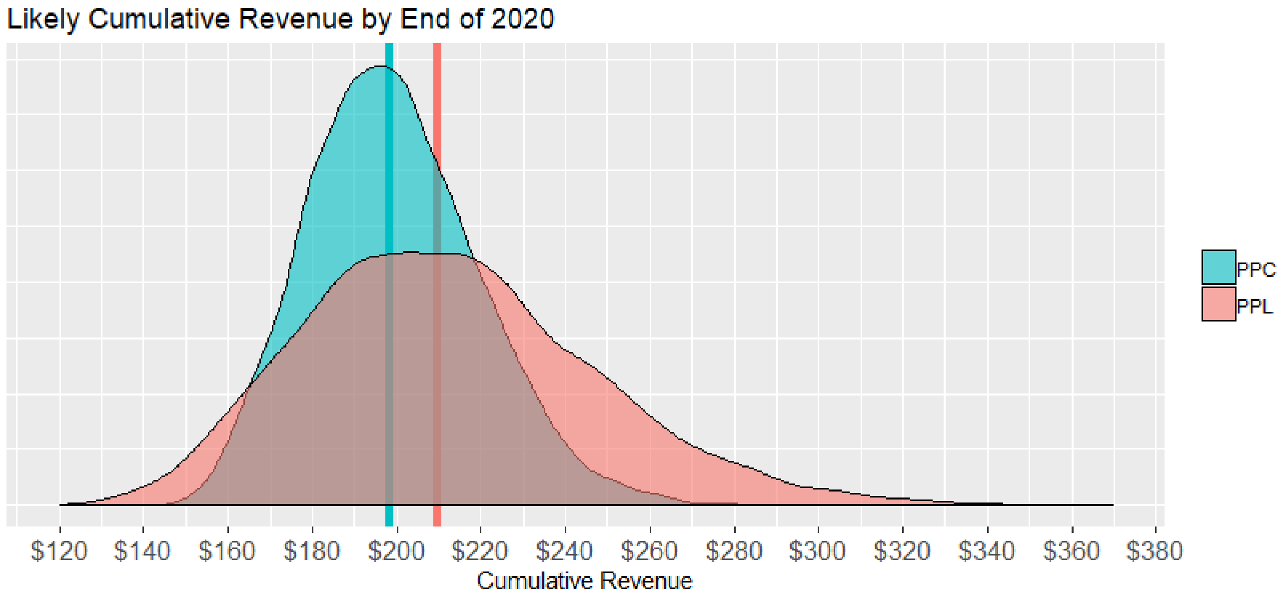


Over time, the cumulative revenue generated by PPL is greater than PPC by the end of year 2020 with a difference of $11.5M in cumulative revenue. PPL shows a stronger exponential increase in revenue over time, which suggests a better strategy is PPL to maximize long-term revenue.

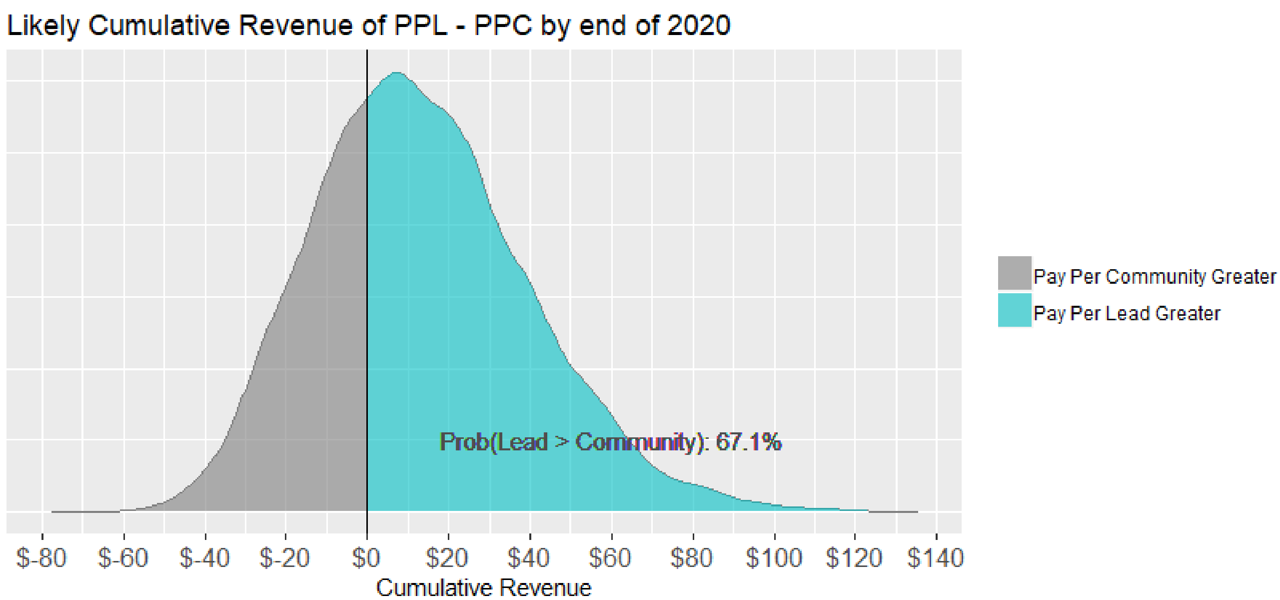


However, the assumptions built into these curves are based on estimates of future growth. In order to get a more robust understanding of the future, sensitivity analysis perturbs these assumptions to build distributions of likely future outcomes.

The Pay Per Lead pricing strategy is more sensitive to the growth rate assumptions, shown below by the wider distribution of likely outcomes (between $120M and $370M) compared to Pay Per Community with a more narrow distribution (between $145M and $280M). The vertical bars mark the average value.

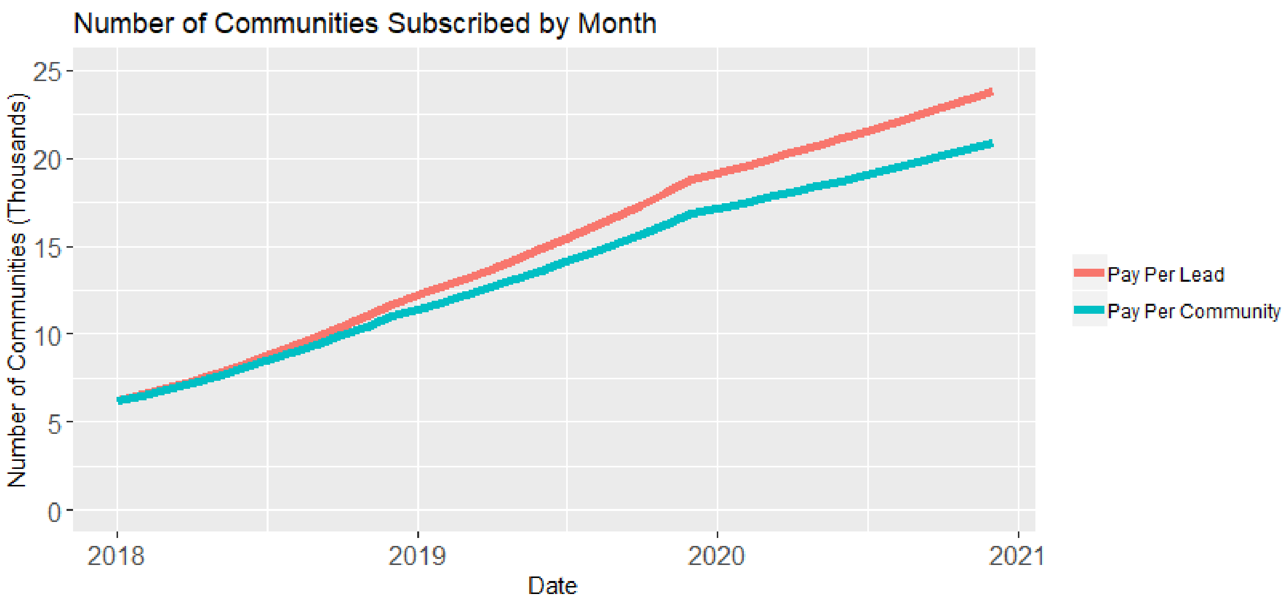


The distribution of PPL is shifted further to the right, giving it an overall higher likelihood to have a more positive outcome than PPC. This is evidenced below by PPL having a 67.1% chance of a greater revenue outcome than PPC (p-value < 0.001).



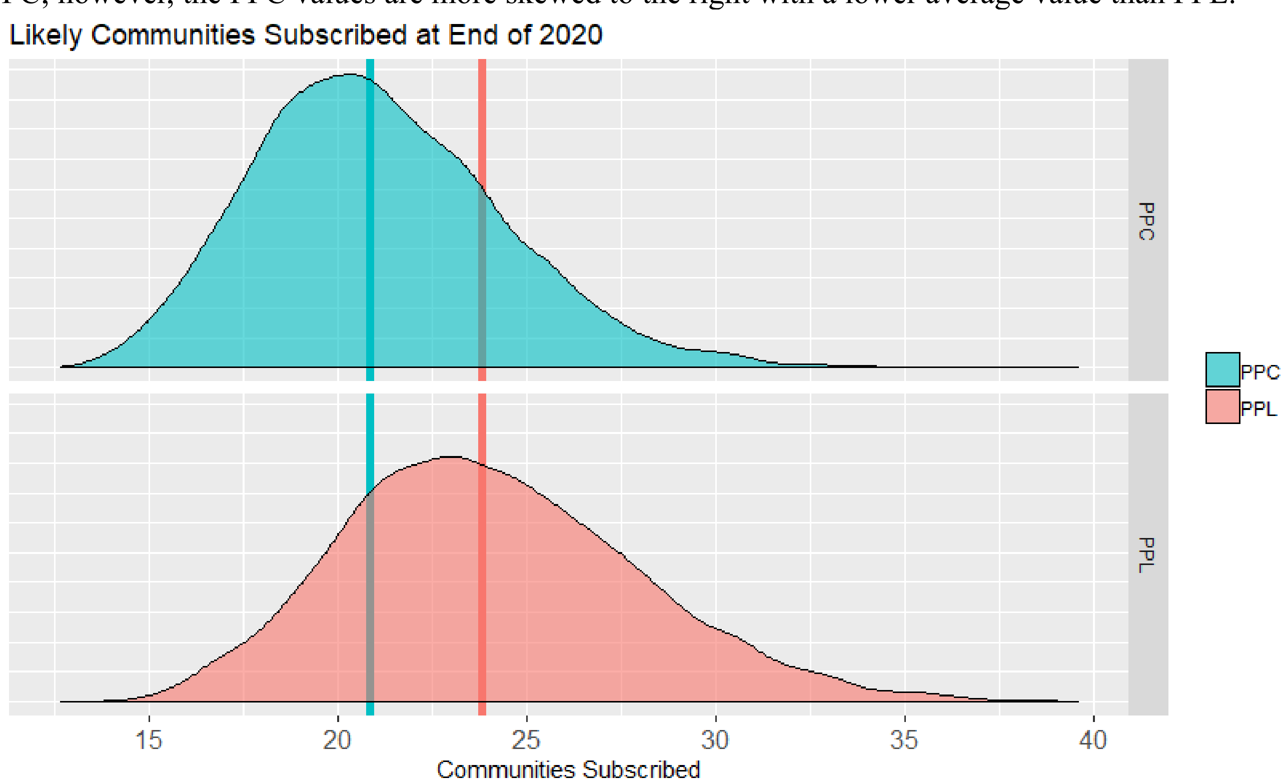
Communities Analysis

The Pay Per Lead pricing strategy results in a larger number of communities subscribed over time, with 23,793 subscriptions at the end of 2020 compared with Pay Per Community's 20,848 (difference of 2,945). The number of communities subscribed using the PPL strategy is always above the PPC strategy, showing PPL as the better short and long term pricing strategy to maximize communities subscribed.

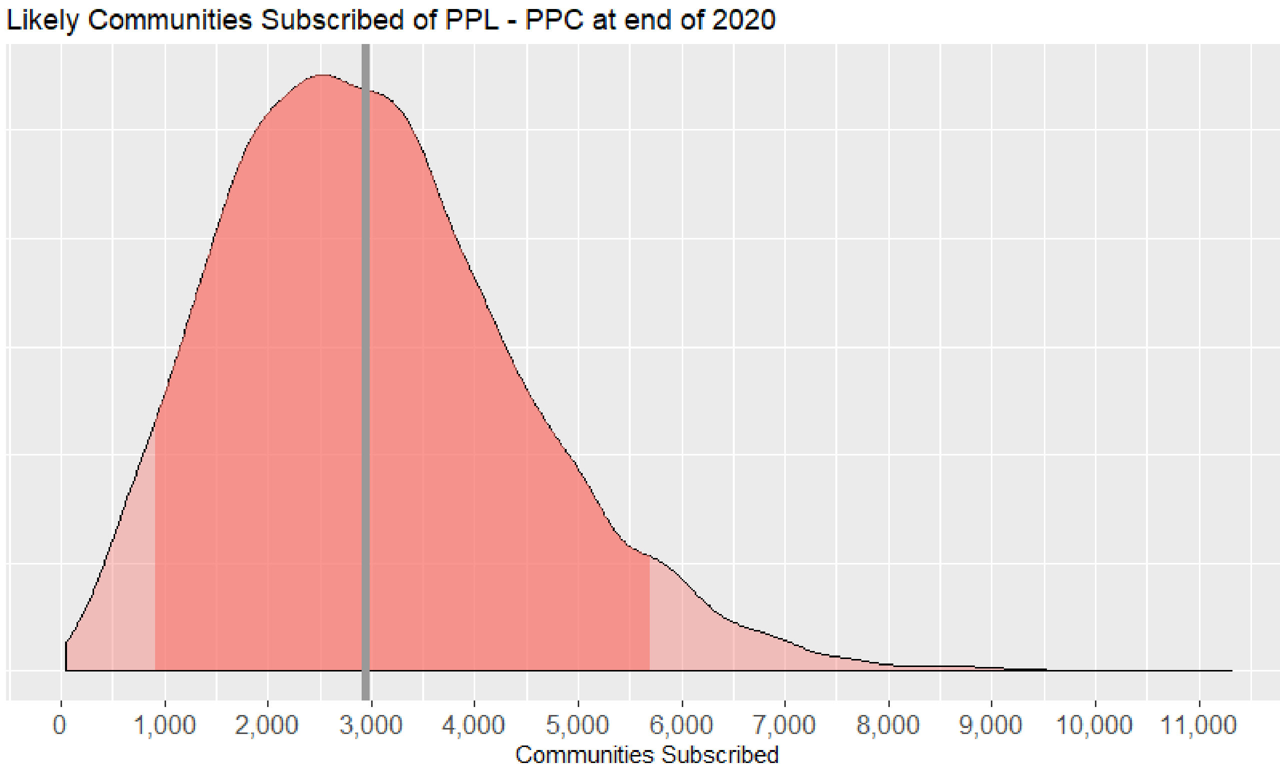


However, the assumptions built into these curves are based on estimates of future growth. In order to get a more robust understanding of the future, sensitivity analysis perturbs these assumptions to build distributions of likely future outcomes.

The range for the number of communities subscribed at the end of 2020 is overall similar for PPL and PPC; however, the PPC values are more skewed to the right with a lower average value than PPL.



Due to the penalty assumption placed on Pay Per Community, PPC will never have a larger outcome of subscribers than PPL. The average difference is 2,945 communities, but ranges between 0 and up to 11,000. The darker shade below shows the middle 90% of the data.

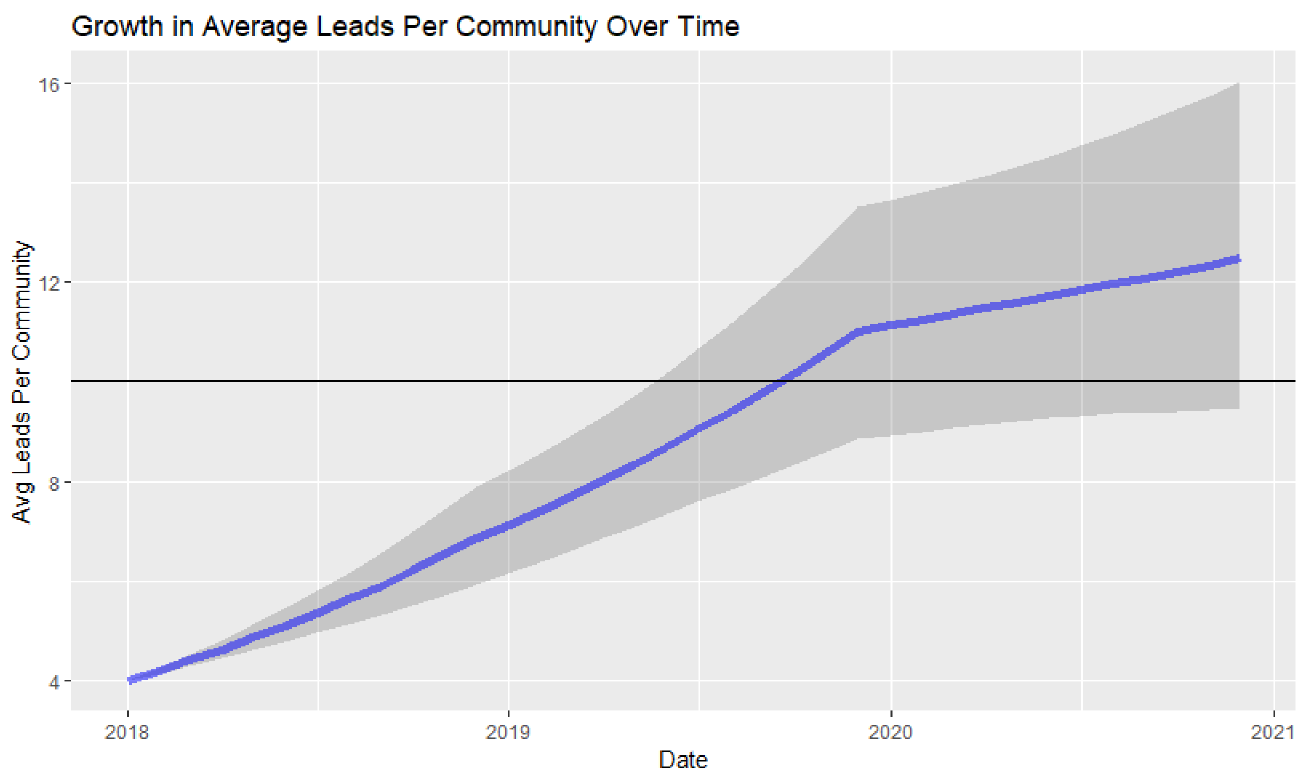


Strategic Advantage of Pay Per Lead

The Pay Per Lead strategy allows subscribers to pay only for what they use. The growth in revenue for this strategy is directly tied to both the growth in the average number of leads per month and the growth in number of subscribers. This gives Company two separate channels to increase future revenue, by increasing the number of leads each platform user submits and the number of communities subscribed. Growth in these two channels allows Company to grow revenue at an increasing rate, which is better for long term revenue maximization.

Strategic Advantage of Pay Per Community

Pay Per Community is an unlimited subscription model. This model is advantageous to Company when the monthly usage averages less than the per-lead price. For example, at the 2018 average of 4 leads per month, each lead would cost a subscriber $100 compared to the $40 in PPL. The average leads per month would need to be increased to 10 to equal the price for PPL which, based on the projected average leads per month, would most likely be Fall of 2019. Due to this affect, PPC's strategy advantage is short-term revenue maximization.



Assumptions

Triangle distributions were used to produce 10,000 simulated iterations for sensitivity analysis.

Community growth rate:

- 2018: min: 4%, max: 8%, most likely: 6%
- 2019: min: 2%, max: 6%, most likely: 4%
- 2020: min: 0%, max: 4%, most likely: 2%

Leads per community growth rate:

- 2018: min: 3%, max: 7%, most likely: 5%
- 2019: min: 2%, max: 6%, most likely: 4%
- 2020: min: -1%, max: 3%, most likely: 1%

Pay Per Community penalty vs. Pay Per Lead:

- All Years: min: 80%, max: 100%, most likely: 90%

Market Research Analysis and Opportunities for Improvement

There are a total of 38,000 new construction communities in the United States today, and Company currently lists 6,174 (17.6% of the market). Based on the growth rates assumed, at the end of 2020 Company would be listing 23,793 communities or 68% of the current US market. Sensitivity results can be up to nearly the entire current US market, which is probably an unrealistic assumption. Future analysis should be performed to estimate the US market size for new construction communities in order to have better estimates for sensitivity analysis. Data from industry reports and time series analysis of historical rates can create future construction estimates.

The industry spends on average 1% of the sales price of a home on marketing. With the median sales price of $350,000, that leaves $3,500 for marketing per home. Further analysis could be done to find the median number of months a construction community was on the market and the median count of homes within a new construction community. With this information, Company can estimate the percent of the marketing budget that Pay Per Lead and Pay Per Community would consume. If that percentage is too high, communities may opt to not list on Company.

Additional market research could be completed to get more exact estimates of the Pay Per Community penalty vs. Pay Per Lead. Surveys could be sent to owners of new construction communities asking about their willingness to pay at different prices, which could be extrapolated to estimate a penalty rate. The fraction of owners willing to pay $400 for PPC could be compared to the fraction of owners willing to pay $40 for PPL.