THE W REPORT

zoom

We FedEx (FDX) our packages. We Google (GOOGL) our internet searches. We Band-Aid (JNJ) our scratches. We Uber (UBER) our way home. We Photoshop (ADBE) our images. We Zoom (ZM) our video meetings. When your company name becomes a verb and you become a household name, business life is good.

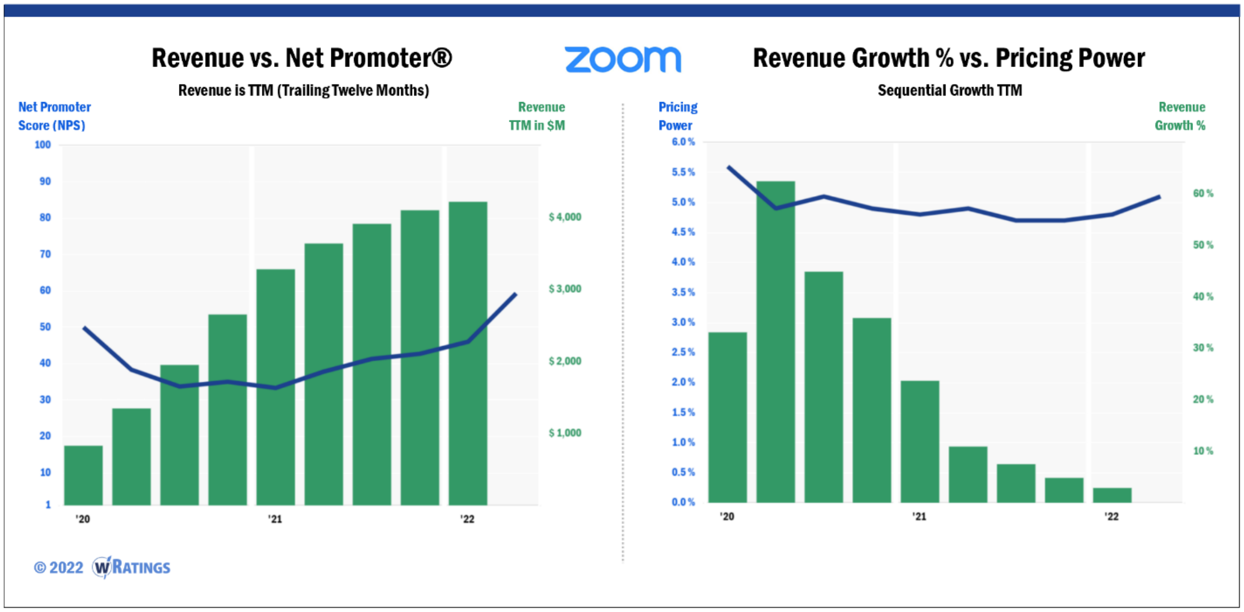
Whether due to amazing product development, adept management, lucky timing, or all of these, the Zoom phenomenon is a huge success . . . until recently as growth has slowed.

In this report, we are going to show why customers love Zoom. And why the company is struggling to translate that customer love into growth. We walk you through how customers perceive the company across multiple functional and emotional needs, and show how improving perception in just two needs will likely unlock the next wave of strong revenue growth for Zoom.

The Growth Challenge

Zoom's annual revenue grew from substantially from 2020 to 2021 to 2022 ($622M to $2,651M to $4,099M). Lots of people were using Zoom before the pandemic started, primarily due to its freemium model and simplicity of running in a browser. Once the lockdowns kicked into full gear, the "no download, no hassle" feature set accelerated the company's growth.

But something happened along the way, and it wasn't just that Microsoft (MSFT) Teams, Cisco (CSCO WebEx and Google Meet got their act together. Whereas Zoom won the verb war with its ease of use, rivals went to work on being the safe and secure alternative. And when Zoombombing (where unintended people join meetings) and over 500,000 Zoom accounts were compromised, the company was forced into an $86M settlement over privacy concerns in August 2021.



As a percentage, Zoom's revenue growth peaked in 2020-Q2 over the last 2+ years. This is in spite of their impressive Net Promoter Score® (NPS), a measure of how likely customers are to recommend the company, bottoming out in early 2021 and continually increasing through our latest measurements in mid-2022. As is often with simple metrics, NPS doesn't always tell the whole story.

Pricing Power, which we define as a measure of how much more customers are willing to pay if a company meets their expectations, has declined slightly since the start of 2020 (pre-pandemic) and been relatively stagnant, even though customers actually love to "zoom" with their Zoom meetings. For companies in high demand currently, such as Apple (AAPL), Tesla (TSL) or Toll Brothers (TOL), pricing power also runs high because customers expect and want more from them. Rising expectations and pricing power are leading indicators to revenue growth (although not a foregone conclusion). **The challenge for Zoom executives is their pricing power is not only stagnant at ~5%, Microsoft's pricing power with customers (across all product lines) is running much higher at ~7.4%.**

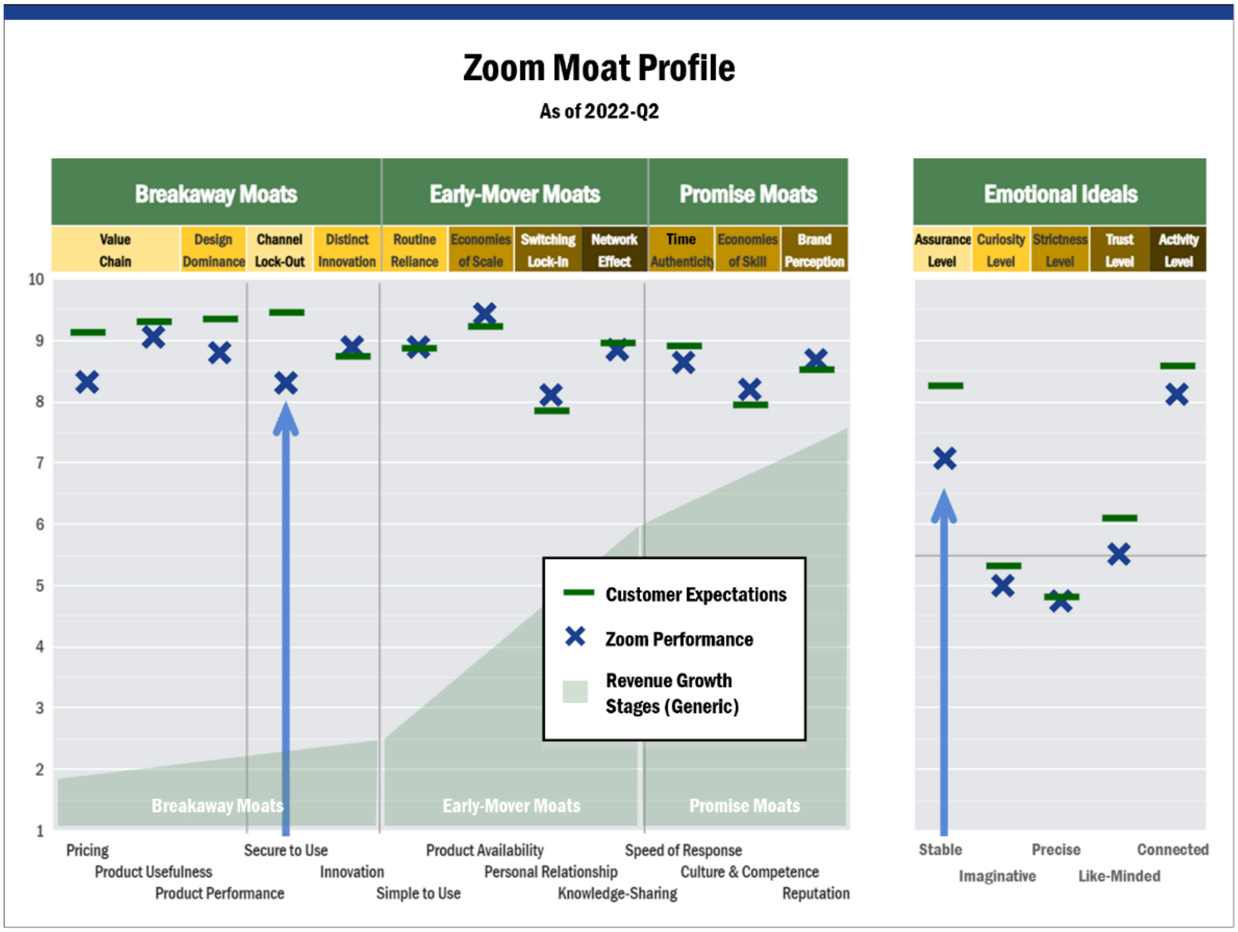
So how can a company with a growing NPS that is meeting customer expectations have slowing growth? No doubt that the economy opening back up and becoming less reliant on video conferencing impacts Zoom's growth, but that impacts all products in the category and is not unique. To combat the back-to-the-office shift, Zoom executives released numerous products across their multi-platform approach, which now includes "chat, phone, video conferencing, whiteboard, contact center, events and more," according to their 2022 Annual Report. In addition, they recently released a new "Zoom IQ for Sales" that analyzes meetings and deals to provide insights. The company targets key segments of their customer base with many of their offerings, and is arguably one of the best at it.

But our data shows that Zoom executives may have missed a step to their second wave of growth, and it's a critical one that some smart executive teams likely miss as well.

The Sequence of Revenue Growth drives Momentum

Let's first take a look at how executive teams successfully unravel the sequence of revenue growth. We've conducted two studies over a five-year (2001-2005) and ten-year (2005-2015) period to analyze how companies meet customer expectations to consistently drive growth. **We found key patterns in the data – what we and some others call moats –that shows how customer perception moves naturally through stages that build over time**. Early on, companies must meet expectations well enough (when compared to its rivals) across several moats in order to break away from the pack and unlock growth. Think Geoffrey Moore's *Crossing the Chasm* meets Michael Porter's *Competitive Strategy* using the concept of Warren Buffett's economic moats.

Our moats are not new, as we can show you companies that built them 100+ years ago. Similarly, they are not dependent on the latest technology breakthroughs, although many ways to build moat barriers with customers involves developments like web, mobile, cloud and other digital approaches. For startup companies, the customer moat structure is invaluable to figure out how to "cross the chasm" (i.e. break-out from the pack) and generate revenue faster than your rivals. But moats are not just for startups; They help mature companies regain their competitive position and drive new waves of growth.



Similar to how sports franchises become dynasties (i.e. Alabama Crimson Tide, Golden State Warriors, New England Patriots, New York Yankees), companies must continually adapt not only what they do, but how they do it and sometimes even why they do it. Whatever got you to the top doesn't keep you there. Competitors copy any formula they can for success. The only way to stay on top is to restart efforts at the beginning of the moat sequence, cycling through the moats every 5 to 10 years.

CEO Eric Yuan started the company in 2011 and launched their first product in 2013. No doubt they have enjoyed tremendous success through their first wave of growth. It's time now to work on that second wave, and that's where our moat analytics clearly identify what's holding them back.

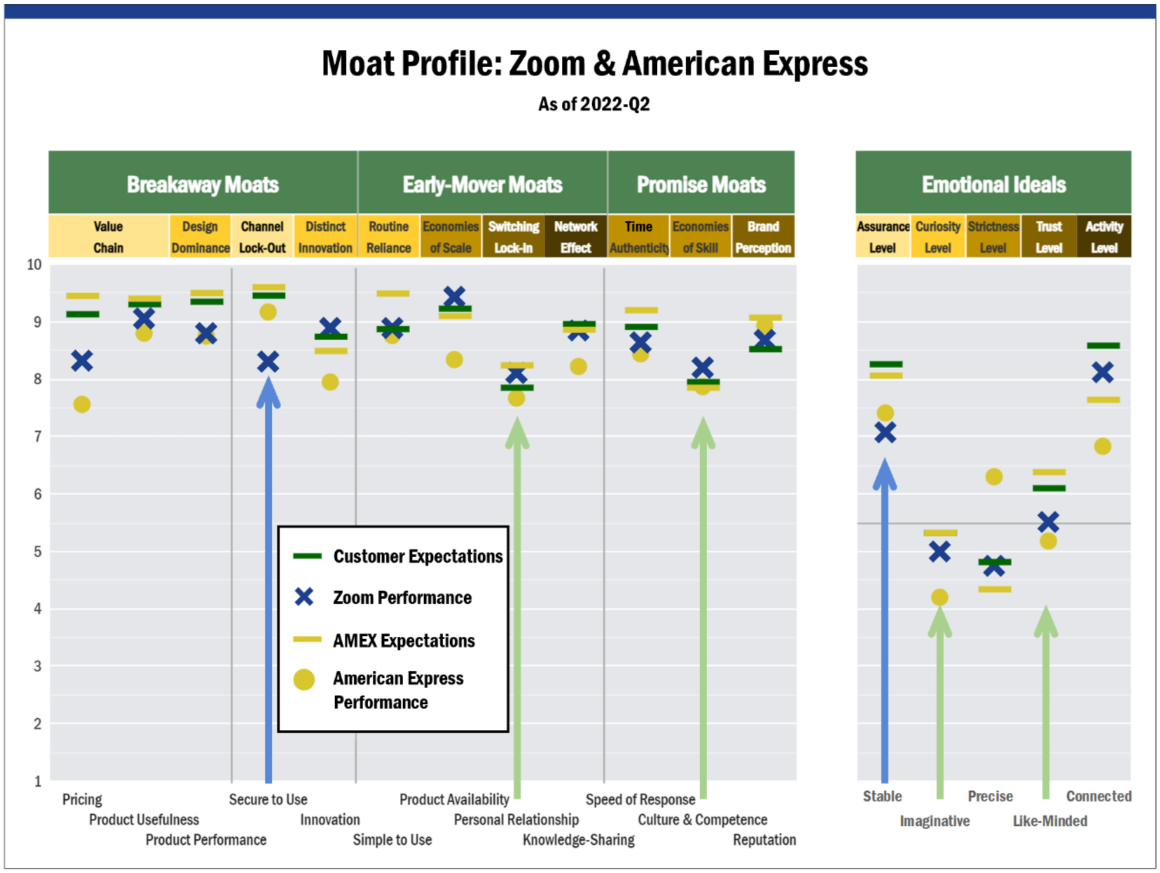
In the Zoom Moat Profile, Zoom is meeting or exceeding expectations across most of the customer needs except for two: Gaps exist for customers when evaluating Zoom's security and stability (see two blue arrows in chart). **During Zoom's first pass through the moat sequence, security and stability were "good enough" as customers valued instant communications over safe/secure communications**.

But in today's hypersensitive world where companies like Apple and Google are changing their privacy practices, Zoom struggles to meet customer requirements for security. What's holding back Zoom's growth now, beyond the shift to in-person work/school and video conferencing fatigue? Zoom needs to tackle its security issue. Settling a class action suit only solves the legal issues, not the customer perception ones. They must reassure customers about their stability.

In Search of Security: Membership has its Privileges

What can Zoom do to improve customer perception of security? Searching through the W-30 benchmarking database, one company that shines with its customers on security is American Express. In the 1990s, the slogan for AMEX was "membership has its privileges" which meant that in return for an annual fee, customers gained a lot of benefits. In today's world of real-world and cyber-theft, customers find AMEX to be one of the safest companies to do business in our database.

What makes American Express so safe and calming to use? In a nutshell, it's their best practices. Sure, they've built smart authentication technology and artificial intelligence (AI) to rapidly identify fraud, but the way they respond and interact with customers provides stability. In the Moat Profile comparing Zoom with American Express customers, AMEX outperforms Zoom in both security and stability (see blue arrows).



Zoom needs to find ways to make customers feel more secure, and identifying what AMEX does to replicate and adapt to the video conferencing industry would be both unique and creative. In their 2022 Annual Report, Eric Yuan writes their "success rests on our culture" and how Zoom has a "culture of delivering happiness." The approach primarily applies to employees ("Zoomies"), although extending that happiness culture to customers would be an interesting step to make customers feel safer. It's tough to be happy when you're anxious.

Tapping into Wave 2 of Zoom Revenue Growth

No doubt exists that the Zoom product was unique when first introduced through the freemium business model. **When looking at the key contributors to Zoom's revenue growth currently, customers value their imaginative approach and "innovation-obsessed mindset" (Eric Yuan's words) the most**. Next is the culture & competence, and how well Zoomies think like a customer in both what they do and how they do it. Look for Zoom executives to continue to invest heavily in these areas over the next year as they strongly correlate with their growth path.

Zoom Predictive Power

As of 2022-Q2

Summary. Customers buy/use Zoom today primarily due to it's imaginative approach, followed by their "Zoomies" culture/competence and ability to think like them. Beginning in 2023, how well Zoom builds a personal relationship with its customers will become a key contributor to revenue growth, doubling down on Zoom's ability to think like customers.

Relationship Strength

- Very Strong Correlation (0.8 to 1.0)
- Strong Correlation (0.5 to 0.79)
- Mild Correlation (0.3 to 0.49)
- No Correlation (Below 0.3 or negative)

	Contributing to Growth Currently		Likely Contributing to Growth in 6+ months				
Satisfaction Averages	Impact Revenue TTM 2022-P2	1-Per in Future 2022-P3	2-Per in Future 2022-P4	3-Per in Future 2023-P1	4-Per in Future 2023-P2	Average Impact	Pricing Power 2022 - P2
Imaginative	0.83	0.89	0.83	0.78	0.77	0.82	6.59%
Culture & Competence	0.62	0.98	0.96	0.91	0.88	0.87	4.28%
Like-Minded	0.59	0.94	0.98	0.99	0.98	0.90	5.31%
Personal Relationship	-0.22	0.77	0.75	0.85	0.98	0.63	2.50%

A new, fourth area of need is starting to emerge. Customers want Zoom to build a deeper, more personal relationship (i.e. happiness?). Combining personal relationship with like-mindedness (see Moat Profiles), Zoom has an excellent opportunity to build a powerful moat for Switching Lock-In. This moat engages customers at both an emotional and economic level, locking them into the product/service through membership programs. Historical success in this moat is often seen with loyalty programs (airline frequent flyers) and auto-renewals (technology subscriptions).

The ability to continually upgrade Office users provides a strong moat for Microsoft, and one where Zoom must find a way to compete or otherwise cede its market position leader to Microsoft Teams. Intuit's Quicken held off a similar type of bundling assault by maintaining their superior product and ecosystem.

The good news is that many users feel Microsoft holds them captive (sort of a negative Lock-In moat), **leaving much opportunity for Zoom executives to find ways to build a vested relationship similar to how customers feel about Apple and Tesla**.

Look for the Zoom executive team to tackle their security challenge with customers in a direct fashion soon, and the second wave of growth to get underway.

About The W Report™

The W Report™ provides a proven, innovative way to see what contributes to a company's revenue growth today, and predictive power of where to focus efforts that will drive future revenue. Created by **Harvard Business Review** author Gary A. Williams, the patented wRatings system provides fresh, forward-looking data and analytics that cannot be found anywhere else.

Our competitive strength research requires a number of fixed investments to help executives make decisions about how to drive organic revenue growth. Basic economic theory shows that in a highly competitive market, returns will be driven down to essentially no economic profit as rivals imitate any known advantage. To achieve a durable advantage, executives must find ways to defy this very powerful force of competition.

Since starting a fund on January 1st, 2015, the Top 25 Companies in our rankings have outperformed the S&P 500, the Russell 1000 and Russell 2500 by double-digits. Our research was featured as the May 2002 cover article in Harvard Business Review.

The wRatings Corporation provides CEOs, their executive teams and PE Firms & Hedge Funds with subscriptions to our independent competitive research analytics.

FIXED INVESTMENTS

SaaS Tool (Software-as-a-Service)

Patents, Copyrights & Trademarks

Competitive Benchmark Database

LEVERAGED BY

Customer Online Panels

Articles, Books & Events

Analytics & Predictive Power

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CEOs & Executive Teams

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Our Top 25 companies consistently out-perform the S&P 500, Russell 1000 and Russell 2500

Our Top 25 Companies	S&P 500 (Total Return)	Russell 1000 (Total Return)	Russell 2500 (Total Return)
168.3%	130.7%	127.6%	87.4%

Source: Concentus Wealth Advisors, May 1st, 2022