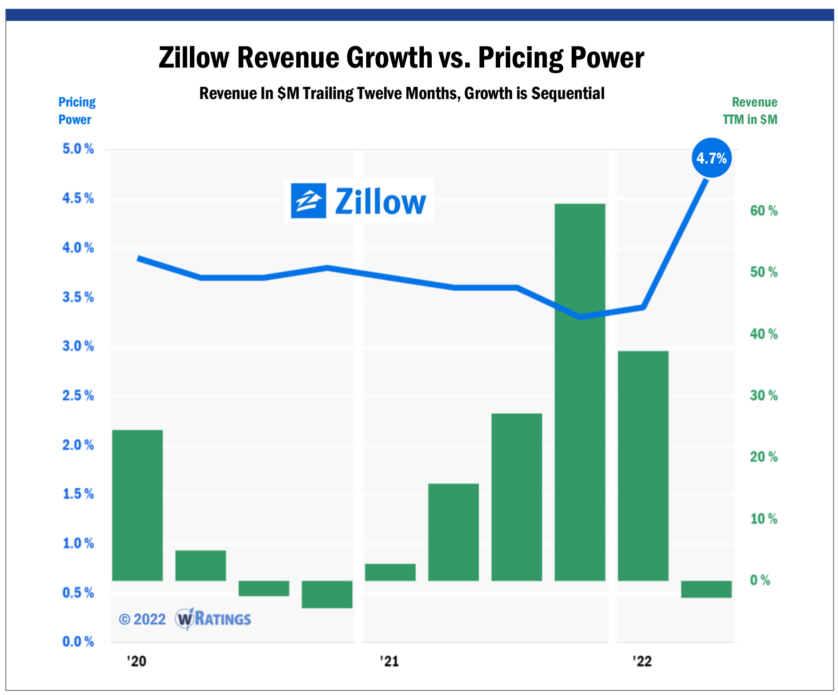
THE W REPORT

Zillow

House shopping in the US has exploded over the last two years and, along with it, home prices and home buying. Strong demand coupled with a lack of inventory is an excellent way for everyone to make money in the real estate industry – until it's not. To use a popular child hood game of musical chairs analogy, inflation and rising interest rates make it feel like the music suddenly just stopped, and the remaining chairs are on the Titanic. It was fun while it lasted.

The QVC of house shopping, otherwise known as Zillow Group (NASDAQ: Z), has been hit hard the past 12 months, losing about two-thirds of its market value to about $8 billion. Most analysts are saying the worst may be yet to come. **Our competitive analysis on Zillow differs from "most" analysts though.**

Zillow's TTM revenue growth (sequentially) during the pandemic was explosive, peaking at ~60% by the end of 2021. Within six months, growth is now in negative territory. In their February 2022 investor deck, executives promise a pathway from $2.1B to $5.0B in revenue, an impressive feat of 24% annualized growth. Much of that growth assumes a doubling in Zillow's number of customer transactions (to 730K) resulting in a more than 2.5X in total customer transaction revenue to $3.8B. Much of the Zillow revenue is tied to its Premier Agent offering.



Throughout its competitive positioning, Zillow executives continually stress how they make money off the seller which, of course, is true in the traditional real-estate transaction. Yet, the actual money source in that same transaction is the buyer.

Want to capture more transactions at a greater % of profit? Build an extraordinary relationship with home buyers. Zillow's pricing power, which is the % more consumers are willing to pay if their expectations are met, has never been higher in the last two-and-a-half years. Consumers are ready to pay Zillow more, they just need the company to adjust how they deliver their services.

If Zillow executives open their mind on their spot in the customer's real estate journey, the company can unlock more compelling value than they do currently. Like many companies with declining revenue, one slight change in perspective can open up substantially more opportunities to grow again.

In this report, we walk you through how executive teams can build a new set of competitive advantages – what we call moats – using a combination of existing strengths along with proven strategies from other successful companies.

Everyone loves Zillow

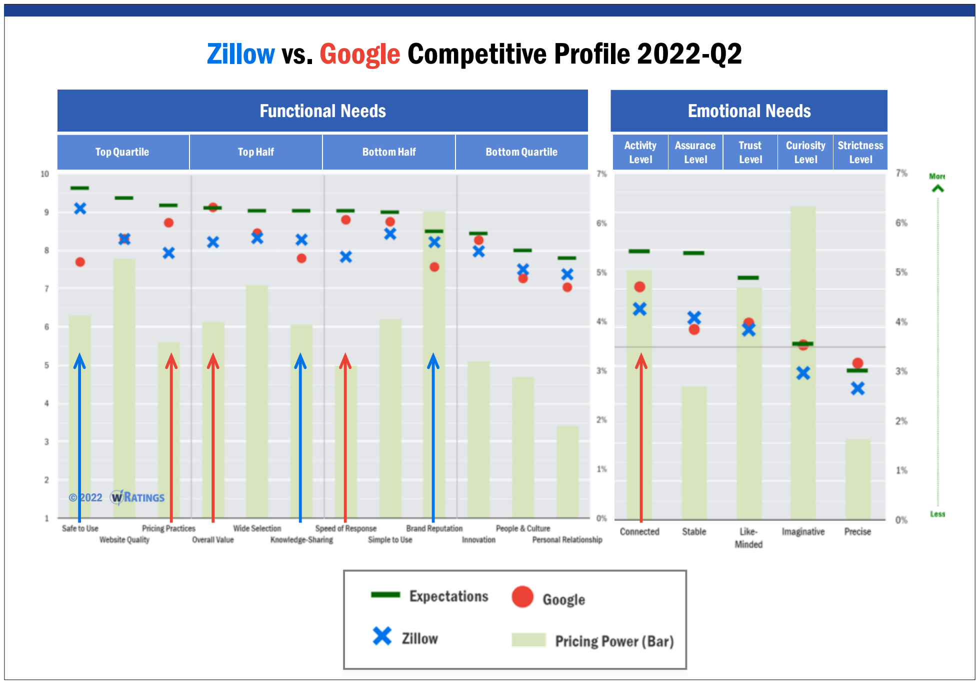
According to the *Wall Street Journal*, 234 million people use Zillow's apps and sites to do their house shopping. The US census site counts 258 million as adults in 2021, which implies that 90.7% might be using Zillow as their house "search" engine. By any market comparisons, this is truly impressive. Current market share for Google, the absolute king of search, shows 88% market share in the US (according to Oblo).

Yet, Google's annual revenue was $258 billion at end of June 2022, while Zillow's revenue was $10.8 billion. Google continues to grow their core business, whereas Zillow's revenue growth (sequentially) is declining and projections from the company don't offer much hope for a turnaround.

With those 234+ million eyeballs using Zillow, the company only monetizes 3% of US real estate transactions (according to the WSJ). That presents a huge opportunity for the company to figure how to grow revenue by grabbing more of each buying transaction. To do this, Zillow executives need to hone in on that one word: Transaction.

Search engine revenue for Google is a transaction, and a very quick one, between consumer and advertiser. Google's speed at no cost to the consumer generates a ton of overall value, as you can see in our Competitive Profile (see Google red arrows).

Comparing Zillow to Google does yield some similarities, but the differences – let's call them advantages – for Zillow are plentiful. Consumers love Zillow for different reasons than they love Google (see Zillow blue arrows). They view Zillow as very safe to use, far safer than where consumers are with Google these days (i.e. privacy practices are clearly impacting the perception of Google).



Being a safe choice on the web today is highly desirable for any company, but especially when the ultimate size of your transaction is in the six, seven and eight-plus figures. Their safety results in a surprising strength though, where consumers view Zillow's brand reputation superior to Google's. Given the substantial brand equity found by most studies in the Google name, Zillow (so far) is on solid ground to become a highly trusted brand. And a final key area where Zillow wins is how consumers believe the company shares knowledge about the housing industry. Knowledge-sharing ability is one of the most coveted characteristics of companies with powerful network effects like Amazon, Apple and Netflix possess.

Zillow as a Relationship Company

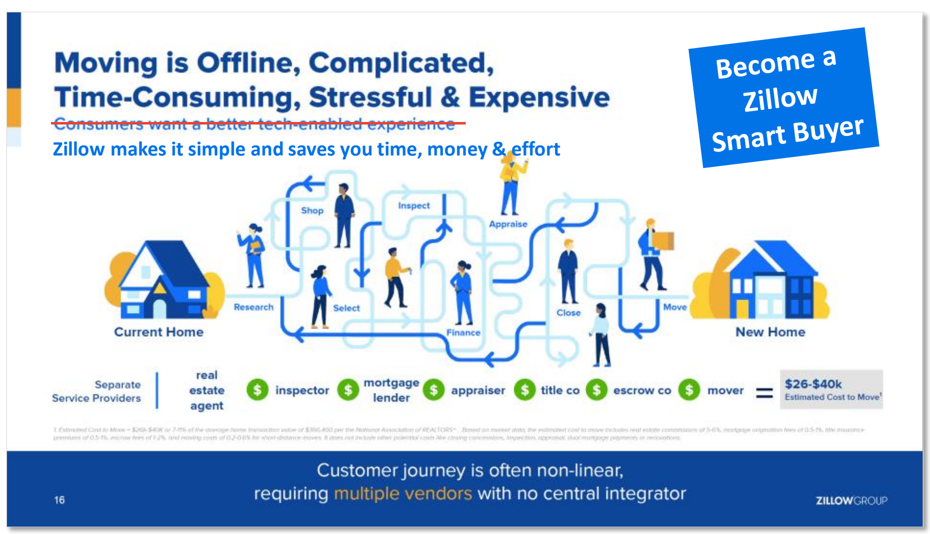
In its simplest form, strategy is the route to business value (what investors sometimes call enterprise value). Sometimes that route is right in front of an executive team's eyes, yet remains invisible due to being trapped in the industry's past assumptions about how and where to make money.

Zillow's investor deck (February 2022) lays out the customer journey in a series of steps that must be taken throughout the moving process. For a long time in the US, moving has been complicated, time-consuming, stressful and expensive. It's an insightful, compelling view of consumer pain.

Then, Zillow executives offer up their solution for the pain: "Consumers want a better tech-enabled experience." This is the equivalent of the Motorola ultra-thin Razr phones in 2008 that lost market share and ultimately forced them out of the phone market within eight years. Consumers don't want technology; they want the benefits of technology. Henry Ford famously stated that if he had asked customers what they wanted, they would have said faster horses. Zillow's strategy today bears a lot of resemblance to ultra-thin Razr phones and faster horses.

A far superior source of compelling value that Zillow could create is right in front of them: "Zillow makes moving simple and saves you time, money & effort." Consumers don't want more tech; they want more time. They want less stress, less hassle and they want to feel safe. They want a company that has all the knowledge to guide them through the process. In return for meeting their expectations, consumers are willing to pay more (let's say 4.7% more, at least) to that company.

How Zillow Could Dominate the Home Buyer's Market

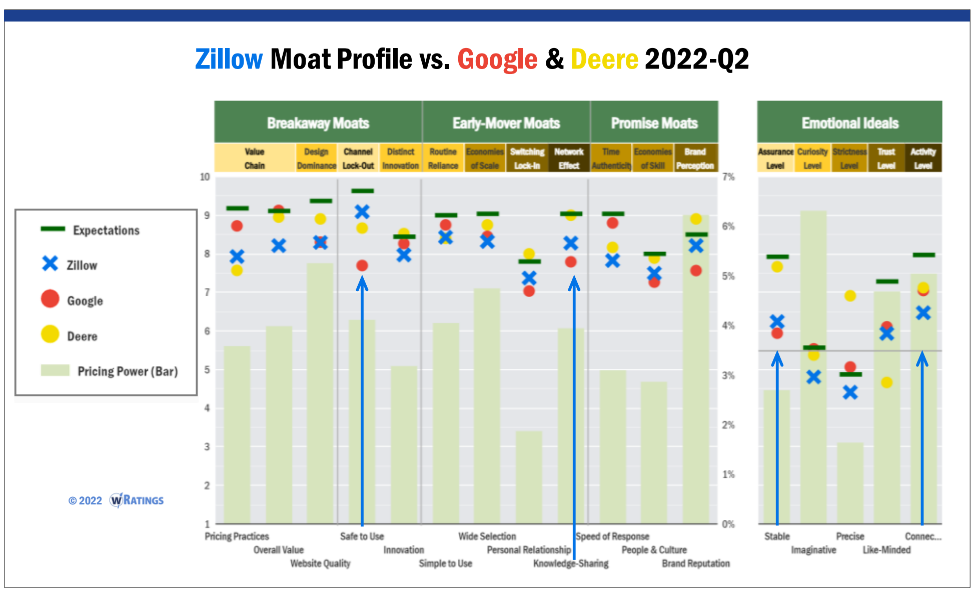


Sources: Zillow Investor Deck, February 2022 with wRatings Analysis

The customer journey, taken from the buyer's perspective and not the seller's, greatly streamlines how Zillow can take their brand equity and point it at the most critical part of the market: the ones who have the dollars. Let's face it, real estate agents want access to buyers. You make money when someone buys, not when they look at a home. It's about the value of the search, not the eyeballs. If Zillow controls that access, they control the huge network effect found in real estate that no company has tapped into.

How powerful would a Zillow network effect be? Our Moat Profiles apply the consumer's order of needs importance to the time fuse associated with competitive battles a company faces in the field. Knowing when these windows open and shut provides considerable advantage for companies to achieve value arbitrage and pricing power. Moats are competitive barriers that prevent rivals from taking customers away, thereby allowing companies to generate durable sources of revenue growth.

Based on our Moat Profile in 2022-Q2, Zillow already possesses the competitive strength to build a strong network effect. At the core of a network effect are transactions, often repeated over and over and over again. The most powerful network effects are bi-modal, meaning they connect two entities that are often previously unknown to each other. The larger the transaction, the more safety and stability is essential to one side. Zillow's network must be much larger than just connecting buyers with sellers and real estate agents.



Rather than trying to emulate Google or worse yet, Uber, Zillow needs to understand where compelling value exists in the customer real estate journey. That is not in the search app business. It's in the relationship business. Buyer's need trusted sources to help them streamline their moving process. Vetting and supplying all the options to help buyers with financing/lenders, real estate agents, title insurers, inspectors, appraisers, movers, etc. greatly simplifies what buyers must accomplish, often in very short periods of time. What a way to change the real estate market. Bringing the offline, complicated, time-consuming, stressful, & expensive process of moving, to be online, streamlined and stress free.

One potential company for Zillow to emulate is Deere & Company. In our Moat Profile, customers love Deere's ability to transfer knowledge to them. They are not only safe to use, but customers feel re-assured when dealing with them and love the way they connect. Deere has a phenomenal dealer network that brings the brand to life with its customers. The company invests considerably in helping dealers attract more customers. Their service levels remain one of the most critical aspects to their success.

Zillow could build its own strong network of service providers. Most consumers only think about title insurance, house appraisals and inspections a few times in their life time. Zillow can make sure they get all of the steps completed in the right order, make their purchase seamless for them.

Zillow 360 vs. Zillow Smart Buyers

Helping home buyers close their transactions flips the power dynamic in the real estate industry to the company that controls the buying process. Make the buyer's journey seamless and safe. Make it high quality, simple, convenient and less time-consuming. Make them feel like smart buyers.

Zillow does have a program, called Zillow 360, that aims to integrate multiple services to close transactions. According to their website, the program bundles the experience to turn two complicated transactions into one seamless move. While a worthy concept, the program reaches too far. It's not about two transactions, it's about one. And that one is the buyer transaction. To use the Zillow terminology, a smart buyer program would be Zillow 180 (or maybe Zillow 270 given how much the buyer actually controls in these transactions). The goal is to own the buyer process.

Zillow can continue to try to own the seller transaction. But **the buyer transaction is much more compelling to win** and opens the pathway to durable revenue growth through repeated transactions in its network of providers.

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.

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