

Toll Brothers, UPS and Waste Management

2023-Q1

COMPANIES COVERED IN THIS REPORT



Toll Brothers
AMERICA'S LUXURY HOME BUILDER®

WM
WASTE MANAGEMENT

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Contents

Contents	2
Executive Summary	3
Why Customer Expectations Matter	4
Toll Brothers Growth Strategy	5
○ How Toll Brothers Customers View Their Strategy	6
UPS Growth Strategy	7
○ How UPS Customers View Their Strategy	8
Waste Management Growth Strategy	9
○ How WM Customers View Their Strategy	10
Moat Framework & Revenue Growth	11
○ Borrowing Ideas to Strengthen Waste Management Moats	12
The Power of wRatings	13
○ Our Business Framework: We Help Executives Win	14
○ Our Portfolio of Winners	15
○ Breaking Away: It's a New Way of Thinking	16

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Our Report Series

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.

The W Reports™ provide a proven, unique way to see what contributes to a company's revenue growth today, and predictive power of where company executives can focus efforts to drive future revenue.

Through our W-30 companies and customer panels, we continually monitor how well each company meets their customer expectations. Our subscribers access this proprietary data to build durable competitive advantages as we monitor their customers using our SaaS.

To subscribe to our data or to receive The W Report™ for your company, contact us at wRatings.com.

Report Coverage

Business Framework	VALUE	PREMIUM	CHALLENGER
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Food/ Retail	Domino's amazon Costco WHOLESALE	Starbucks lululemon	BEYOND MEAT Chick-fil-A crocs TRACTOR SUPPLY CO.
Industrial/ Transport	ExxonMobil BOEING Ford Southwest	JOHN DEERE ups DELTA	WM WASTE MANAGEMENT TESLA Uber
Home/ Finance	Johnson & Johnson charles SCHWAB	Toll Brothers AMERICAN EXPRESS	Zillow Square

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Executive Summary

Three companies in the home industry, each one providing different services to homeowners: luxury building, package delivery, and waste disposal.

Which one performs the best according to homeowners? If you only look at their Net Promoter Scores® or raw satisfaction scores, you'd be entirely misled.

In this report, we look at the customer expectation levels of Toll Brothers (TOL), United Parcel Service (UPS), and Waste Management (WM). We then compare how well customers say they perform against those same expectations.

NPS is beneficial for certain uses, but the score does not tell the whole story of performance. Even though Toll and WM scores are lower, their customers genuinely believe they are performing well. The reason is that homeowners expectations vary widely based on each service offering.




So while NPS for Toll and WM is lower than UPS, their delivery on customer expectations remains high and is similar to UPS.

How we structure this report

Our goal is to measure how well a company is positioned for revenue growth in an objective, data-driven format using customer perception.

- First, we pull each company's strategy for growth from investor presentations and other public materials.
- We then map each strategic area to the relevant/equivalent areas we collect from our customer panels.
- To assess their likelihood for success, we measure the gap between customer expectations and the company's performance.
- Companies meeting expectations better than rivals are much more likely to win customers in the future.

For independent proof of our data's ability to measure success, see our top 25 Companies fund performance in the Appendix.

			
*No. of Growth Strategies	5	5	5
Mapped to No. of Customer Expectations	13	14	13
Customer Assessment as of 2023-Q1	1 ↑ Meeting Expectations	4 ↑ Meeting Expectations	1 ↑ Meeting Expectations
	9 ↔ Somewhat Meeting	7 ↔ Somewhat Meeting	9 ↔ Somewhat Meeting
	3 ↓ Not Meeting	3 ↓ Not Meeting	3 ↓ Not Meeting
Net Promoter Score®	-13.2	38.8	13.8
Pricing Power	6.8%	4.3%	3.1%

* Most companies typically state 3 to 8 growth strategies, which we map to needs from interviews with the company's customers.

Our benchmark database contains customer perception on 12 functional needs and 5 emotional needs, with typical averages of n=200 responses per company on a TTM basis. Customer data collected during March 2023. Threshold gaps for meeting, somewhat meeting and not meeting customers expectations come from our historical database collected since 1999.

Why Customer Expectations Matter

Executing on strategy is a lot like trying to change the tires on your car while you're driving down a two-lane highway. You must keep moving forward at a brisk pace while avoiding the other cars. One way to simplify that effort is remove the other cars.

In today's business environment, competitors are always coming at you. As industry lines blur more and more, you didn't even know they were a competitor. Add in the internet, and most competitors are a few clicks away.

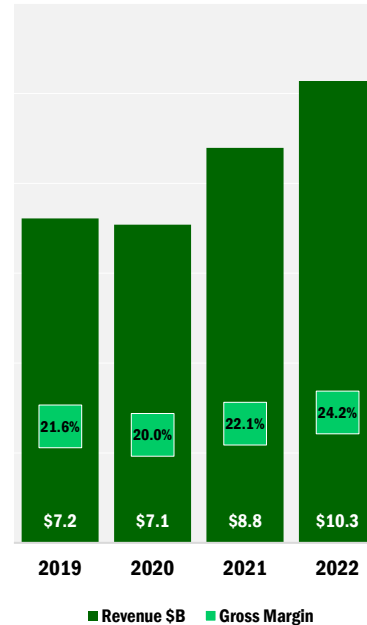
A solution exists to break out of the rat race with a single mantra: Your only true competitor is what customers expect.

Revenue growth has always been directly tied to the company best meeting customer expectations. The gap between what you deliver today and customer expectations is an opportunity to sell more, raise prices and/or sell to new customers. You just need to create more value.

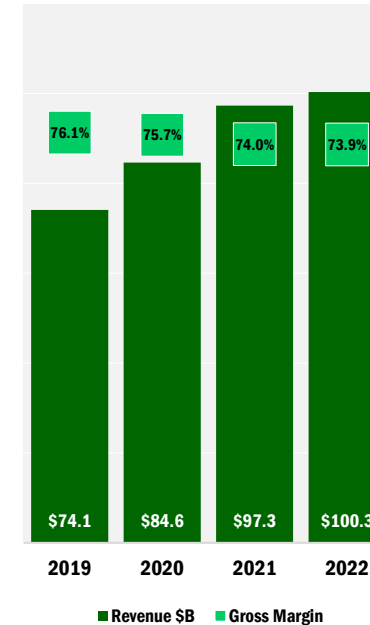
Toll Brothers, UPS, and Waste Management all grew their revenue by double-digits in 2021, yet all slowed down in 2022. Gross Margins are shrinking at UPS and WM, while improving at Toll Brothers.

In this report, we will identify customer expectation gaps for each company and how each company is likely already performing better than what customers say about them. Changing the way a company communicates their performance could shift customer perception and, ultimately strengthen their competitive position and grow their revenue and gross margins.

Toll Brothers
AMERICA'S LUXURY HOME BUILDER*

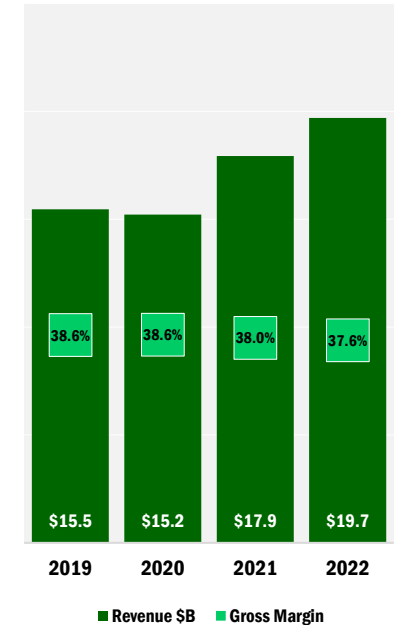


	Revenue Growth	GM Change
2020	-1.9%	-156 bps
2021	24.2%	+208 bps
2022	17.0%	+208 bps



	Revenue Growth	GM Change
2020	14.2%	-41 bps
2021	15.0%	-173 bps
2022	3.1%	-5 bps

WM
WASTE MANAGEMENT



	Revenue Growth	GM Change
2020	-1.6%	+6 bps
2021	17.8%	-59 bps
2022	9.9%	-44 bps

Sources: The companies
All data is TTM reported as end of December

Toll Brothers Growth Strategy

Toll Brothers is a well-recognized brand name and a market leader in luxury home building. In 2022, they were the #1 World's Most Admired Home Builder according to FORTUNE magazine.

They operate their own architectural, engineering, mortgage, title, land development, insurance, smart home technology, and landscaping subsidiaries. **This vertical integration provides in-depth control over their home quality, buying process and ownership experience.**

The builder caters to luxury buyers from a variety of market segments: first-time, second-home, move-up, empty-nester, and active-adult buyers. They separate their offerings into upscale luxury and affordable luxury, marketing them to move-up and affluent first-time buyers respectively.

To justify their high selling prices, Toll Brothers controls land in some of the best locations and offers highly customizable designs using premium grade products. Competition does exist in the luxury market, but primarily from private home builders.

Their growth plan rests on expanding their geographic footprint and buyer demographics by broadening their product/price points. **To grow market share, they must first attract more customers to their way of home building.**



Q1 2023 Company Overview
January 31, 2023

TOLL BROTHERS DESIGN STUDIOS

- Build-to-Order model provides unrivaled choice for our home buyers
- Goal: 80% of homes pre-sold build-to-order, 20% spec
- We operate 33 Toll Brothers Design Studios, a retail-like space where buyers choose both structural & finishing options
- Our buyers increasingly want the ability to personalize their homes, & they have the means to do it

THE TOLL BROTHERS ADVANTAGE

UNRIVALED CHOICE

- Highly personalized & hands-on Design Studio experience guided by a professional design consultant
- Selections from premium products, state-of-the-art appliances, & luxury fixtures & finishes

PRESTIGIOUS LOCATIONS

- Toll Brothers builds communities in the heart of where people want to live
- Access to natural features, proximity to schools, commuter routes & entertainment

DISTINCTIVE ARCHITECTURE

- Extraordinary architectural elements & thoughtful design
- Extensive selection of architectural designs to suit any lifestyle & life stage

EXTRAORDINARY CUSTOMER EXPERIENCE

- Always met with the professionalism & thoughtful attention
- Toll Brothers focuses on delivering an experience beyond compare that exceeds expectations at every turn

Toll Brothers
AMERICA'S LUXURY HOME BUILDER

39

Why Toll Brothers Wins

- Unrivaled Choice / Personalization
- Premium Products
- Prestigious Locations
- Distinctive Architecture / Design
- Brand & Extraordinary Experience



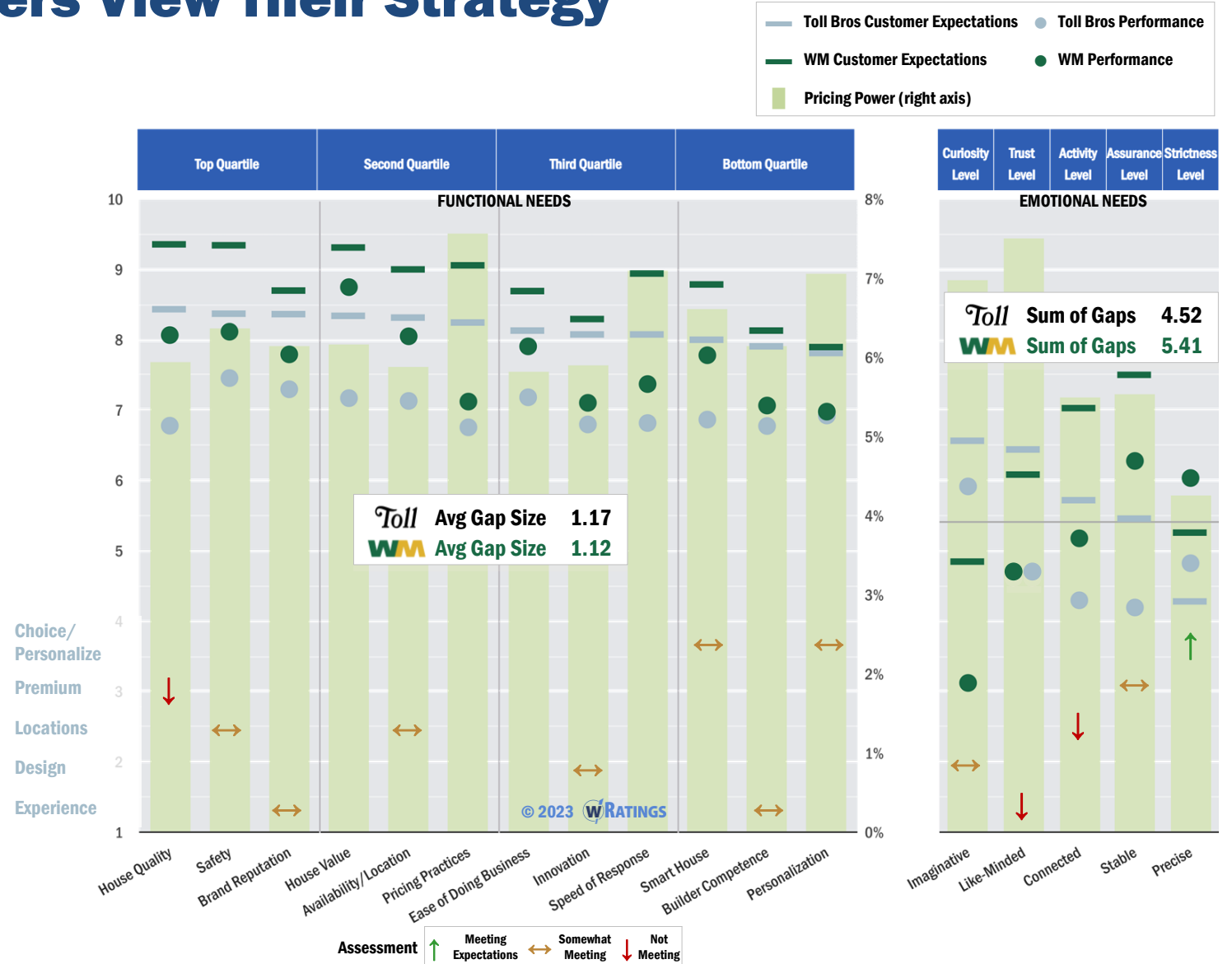
How Toll Brothers Customers View Their Strategy

To assess strategy, we map each key area to customer expectations (ice blue lines) and then measure how closely customers say the company meets them (ice blue circles).

At first glance, Toll Brothers appears to perform much worse as customers are less satisfied across all 12 functional needs than WM customers. But homeowner expectations are lower for Toll, leaving the average gap size nearly equal between the two companies. **How high up 'up' really is matters when measuring a company's true performance.**

Digging into their strategic areas, Toll Brothers performs well.

- **Unrivaled Choice/Personalization** is where customers view Toll performing the best on their strategy. Toll's ability to create an emotional bond via flexibility (choice) is a customer strength.
- **Premium Products** may be impacted by supply issues, as Toll customers want to see higher quality and more stability.
- **Prestigious Locations** may also be impacted by availability, with customers desiring Toll to increase activity and grow into their geographic area.
- **Distinctive Architecture/Design** is the second strongest area for Toll with its customers. Curiosity requires building a high intensity emotional bond with customers, and Toll does that.
- **Brand/Extraordinary Experience** is a growth area for Toll to expand their trust levels to new market segments. While customers continue to admire the brand and their competence levels, more work is necessary to improve customer trust.



UPS Growth Strategy

United Parcel Service (UPS) provides global package delivery and supply chain management solutions to its customers. They are one of three commercial companies worldwide, competing with FedEx in the US and DHL Express in Europe. Although Amazon is not a direct rival, the retailer operates its own package delivery fleet that could potentially compete with UPS.

UPS operates one of the largest fleets of airplanes and vehicles in the world. They delivered 24.3M packages/day on average in 2022. These huge networks provide tremendous barriers to entry for any competitor to duplicate. After 5+ years of multiple losses, DHL shut down its US operations.

In 2022, the company moved from a “better, not bigger” strategy to a “better and bolder” in an effort to move from volume share to value share. The strategy encompasses three pillars:

- Customer First: Speed and ease
- People Led: Strong culture
- Innovation Driven: Optimize volume flow

To grow, UPS hopes to improve customer engagement through their physical network and digital capabilities.

This leaves a logical view of customer value share centered around a core group of customer needs and expectations.



investors.ups.com/company-profile

Why UPS Wins

- Global Presence
- Brand Equity
- Cutting-Edge Technology
- Distinctive Culture
- Quality Transportation



Global presence

With a presence in more than 220 countries and territories, we serve all the world's major economies, as well as most emerging markets.



Cutting-edge technology

Our customers enjoy powerful shipping and logistics using our industry-leading online tools and e-commerce integrations. Our integrated network is powered by sophisticated technology and engineering systems.



Customer relationships

We attract and retain long-term customers by providing high-quality transportation and logistics services and expertise.



Brand equity

From our signature vehicles to our courteous and professional drivers, the UPS brand stands for reliability, trust, quality, and service innovation.



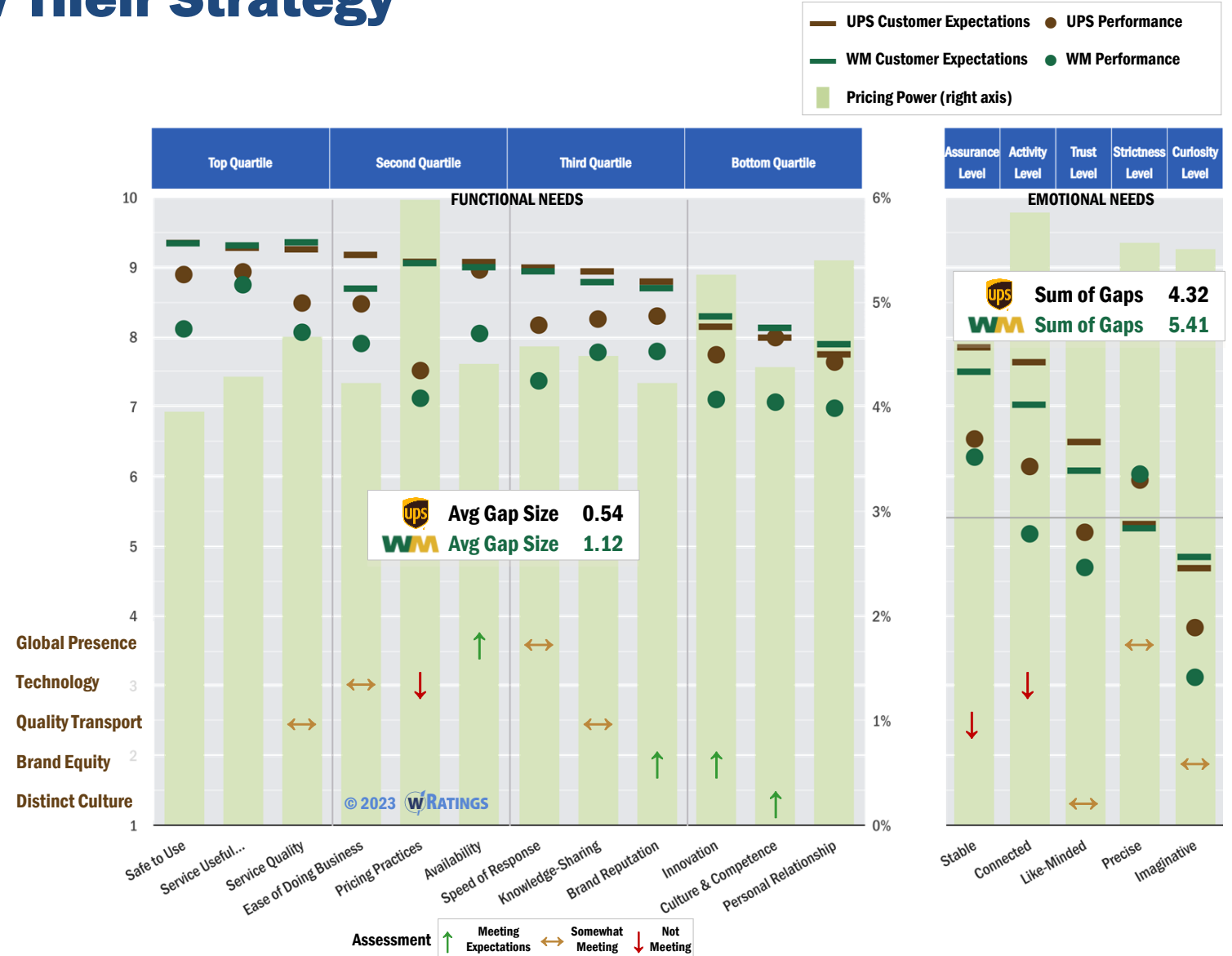
Distinctive culture

We believe that the dedication of our employees comes in large part from our distinctive “employee-owner” culture. The can-do attitude of UPSers is demonstrated by commitment to our customers, our communities and each other.

How UPS Customers View Their Strategy

To assess UPS performance against their strategy, we map each key area to customer expectations (brown lines) and then measure how closely UPS meets them (brown circles). We show customer perception of Waste Management for comparison.

- **Global Presence** provides UPS customers with superior availability along with speed and precision. Scale/size remains a competitive advantage for UPS.
- **Cutting-Edge Technology** is a core UPS growth strategy to improve engagement by better connecting with customers and making it easier to do business with them. Customers are not yet seeing their full capabilities to deliver in these areas.
- **Quality Transportation** is part of building customer relationships using UPS expertise. While customers do see their quality and knowledge, they are not feeling comfortable with their overall assurance. Stability is often impacted by a lack of consistency, which is hard to maintain given UPS volume.
- **Brand Equity** refers to the UPS reputation and innovation, where customers are strong believers in both areas. Customers would like to see UPS driving more curiosity into package delivery, and the company's focus on cutting-edge technology may help close this gap in the near future.
- **Distinctive Culture** is another strength for UPS where customers find employees highly competent and do fulfill on the company's stated "can-do" attitude.



Waste Management Growth Strategy

Waste Management is the leading provider of comprehensive environmental solutions, operating in both the US and Canada. They provide services to a multitude of market segments: residential, commercial, industrial and municipal customers.

Their goal is to manage and reduce waste throughout the process from collection and transfer to disposal and recycling.

WM is the market share leader of US landfill ownership, which is a substantial barrier to entry over rivals due to the massive regulatory requirements to acquire and operate. This channel lock-out moat enables WM to control the flow of waste stream into its landfill assets. Other waste haulers must pay WM fees to use their transfer stations and landfills.

A critical necessity to maintaining a channel lock-out moat is safety and stability. WM promises to deliver a best-in-class customer experience, and generates strong awareness of its sustainability efforts. They use waste to create energy by converting the gas from waste decomposition (which occurs naturally) to make electricity.

Future growth of Waste Management relies heavily on leveraging their asset network and positioning the company as a partner to its customers. Their focus is differentiate the customer experience through technology and automation.

Why Waste Management Wins

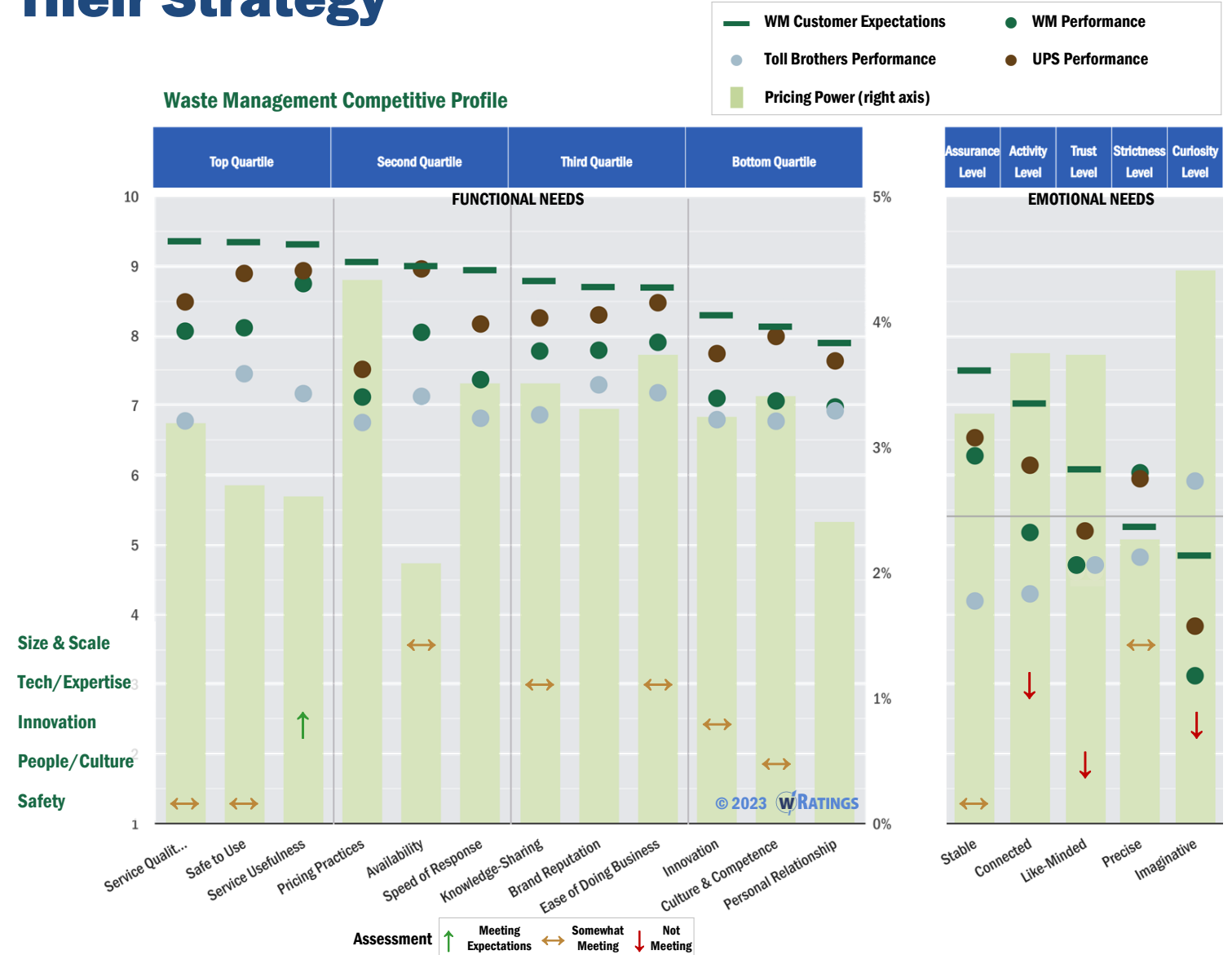
- Size and Scale
- Technology/Expertise
- Innovation
- People / Culture
- Safety / Stability



How WM Customers View Their Strategy

To assess WM performance against their strategy, we map each key area to customer expectations (green lines) and then measure how closely WM meets them (green circles). We also show customer perception of Toll Brothers and UPS.

- **Size and Scale** results in customers possessing broad access to waste disposal services, which customers are mostly pleased with WM today. They would prefer WM to be more flexible, which is a positive sign for growth as customers would like to see the company extend its reach more.
- **Technology/Expertise** is a core promise for WM growth via self-service tools. While customers do see WM as easy to do business and knowledgeable, they prefer the company to be more connected. As WM enhances their tool set, customers should be able to grow their activity level with the company.
- **Innovation** drives customer perception via their service usefulness and its ability to think outside the box. This is a challenging area for WM, as customers fully buy into the benefits of their services. But they are too practical and need to up curiosity levels to create a superior emotional bond.
- **People/Culture** is a core WM belief via its People First Commitment, and customers do believe in the competence levels of its talent. A better understanding of how customers think about waste should improve their trust levels with WM.
- **Safety/Stability** is a vital component for WM to maintain, or else risk customers retaliating against WM's dominance in landfills and transfer stations. Customers mostly see WM as stable and safe while delivering a quality service.



Moat Framework & Revenue Growth

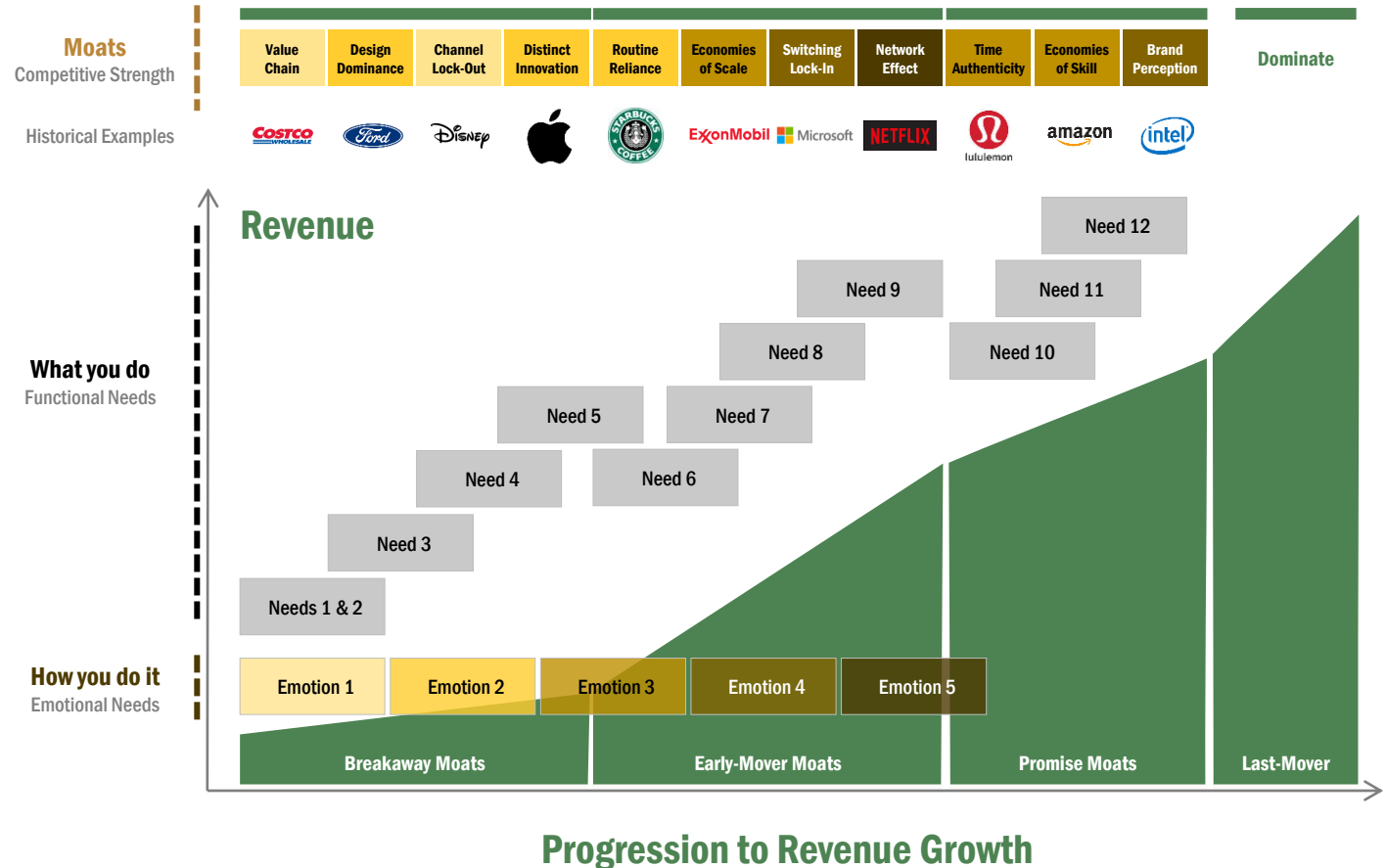
Similar to castles of the past, companies must build moats around their customers to keep rivals from taking them away. Most discussion about moats in business refer to economic moats, where a company's advantages are seen (or not) in their financials. Our moats refer to customer moats, which are the precursors to and continuation of economic moats.

In two different studies (2001-2005 and 2005-2015), we examined 135,000+ customer interviews to determine what the most financially successful companies did to meet expectations better than their industry rivals. **We found 11 patterns – moats – in the data that show how companies progress through stages to meet specific customer needs and build momentum.**

Executives can borrow ideas that meet those needs from other companies outside their industry and adapt them to build moats to out-smart and out-execute rivals.

Progression to revenue growth typically occurs over four stages:

- **Breakaway:** Up to 85% of all companies get stuck in the first two moats as they fluctuate between performance and price promises. Don't think outside the box, create a new one.
- **Early-Mover:** Out-think and out-execute rivals by setting up new rules that rivals struggle to follow.
- **Promise:** Using the power of consistency over time, generate barriers for customers to use in their buying decision factors.
- **Last-Mover:** Never let rivals say they are "the same"; Constantly defend and repeat growth moats to avoid reversion to the mean on your financials.



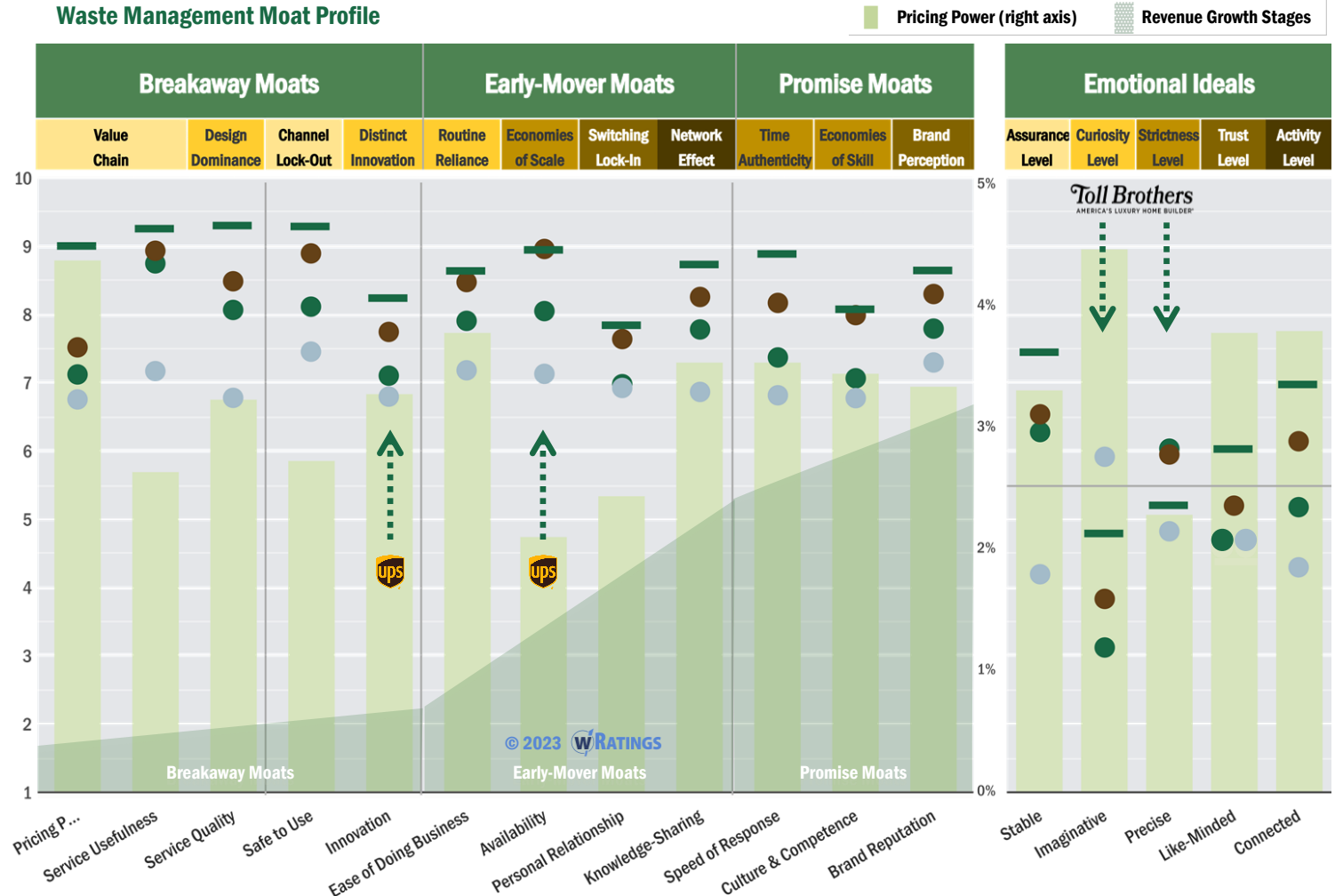
Borrowing Ideas to strengthen Waste Management Moats

Moat Profiles rearrange customer data into stages of revenue growth progression to visually see the best opportunities for investment. In this Moat Profile, we overlayed Toll Brothers and UPS performance on Waste Management. **This analysis allows WM to borrow proven ideas from both UPS and Toll Brothers to strengthen two core moats with its customers.**

Except for a few customer functional needs, WM is already performing as well as UPS and superior to Toll Brothers. But on 2 emotional needs, Toll Brothers performance is directionally much better than how WM customers view the company.

- **Distinct Innovation.** Similar to how Apple & Tesla are seen, the Toll Brothers design studio and distinctive architecture creates strong emotional bonds with its customers. WM could spotlight how its business framework is essentially a design studio approach to waste streams, from its self-service tools to creating electricity as their waste decomposes.
- **Economies of Scale.** Toll Brothers build-to-order model provides customers with tremendous choice and flexibility. WM could offer new ways for customers to have input to their sustainability efforts. They could show where their waste generates electricity from others, completing a fully reusable loop from their waste to others.

The ideas above likely don't require WM to take any different actions than they already are. They just need to communicate what they do in a more compelling way. By borrowing ideas from how Toll Brothers positions itself, WM could strengthen their bonds with customers and build deeper, wider moats to grow their revenue.



The Power of wRatings

Our Business Framework: We Help Executives Win

Using our customer expectations, **we make revenue growth visible so executives can set the new rules of competition in their markets.**

To drive financial improvement for our clients, we make a series of fixed investments in tools, benchmark databases and predictive analytics. Using our proprietary algorithms and patented methods, we build forward-looking views of where companies can create compelling value for their customers.

In May 2002, our research was highlighted as the cover article in *Harvard Business Review*. We are a partner to the *Drucker Institute* to score the best managed companies, which is published in the *Wall Street Journal* every December.

CEOs/Executive Teams and PE Firms/Hedge Funds gain real-time access to our research & analytics through our fully automated SaaS (Software-as-a-Service).

Since January 1st, 2015, one private fund has invested in the top 25 companies from our rankings, and the fund has out-performed the S&P 500, Russell 1000 and Russell 2500 on a consistent basis.

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Companies scoring the highest in our ratings out-perform the S&P 500, Russell 1000 and Russell 2500

Our Top Companies	S&P 500 (Total Return)	Russell 1000 (Total Return)	Russell 2500 (Total Return)
145.0%	136.9%	131.7%	81.2%



Source: Centurus Wealth Advisors, May 1st, 2023

Our Portfolio of Winners (sample from 450+ companies)

While we work with organizations from all sectors of the global economy and have conducted research in 40+ countries and 15+ languages, we are not industry experts in anything but one area: revenue growth.

Since the late 1990's, we've been measuring customer expectations and how well companies and their rivals meet them. We also measure how much pricing power each company possesses, and which customer areas each company can improve to capture the most pricing power.

We especially value our executive relationships, where many have worked with us at multiple stops during their careers. This is a clear sign that our system not only works, but is an integral part of an executive's playbook to success.

Consumer Goods

Brown-Forman
Coca-Cola
Coors
Estee Lauder
Johnson & Johnson
Kellogg
Lexmark
Nike

Finance/Insurance

Aflac
Equifax
GE Healthcare
GEICO
MasterCard
Northwestern Mutual

Home & Travel

AirTran Airlines
Allied Waste/Republic
Builders FirstSource
Carnival Cruises
FedEx
Sikorsky Aircraft
The UPS Store

Media & Advertising

Anthony Robbins Co.
BBDO
ESPN

Telecom

AT&T / Cingular
Verizon

Retail/Food

Aramark
Burger King
Chili's
Dollar Tree
Men's Wearhouse
OfficeMax
Performance Food
PetSmart
Rite-Aid
Walmart

PE & Hedge Funds

Concinnity Group
CVC Capital
Diamondback
Mantle Ridge

Tech/Consulting

Cymer
Drucker Institute
Google
i2 Technologies
IBM
Oracle
SAP

Industrial/Materials

ADAMA
DLF Seeds
Finning/Caterpillar
Shrieve Chemical
Syngenta
Univar
Vixxo/FM Facility

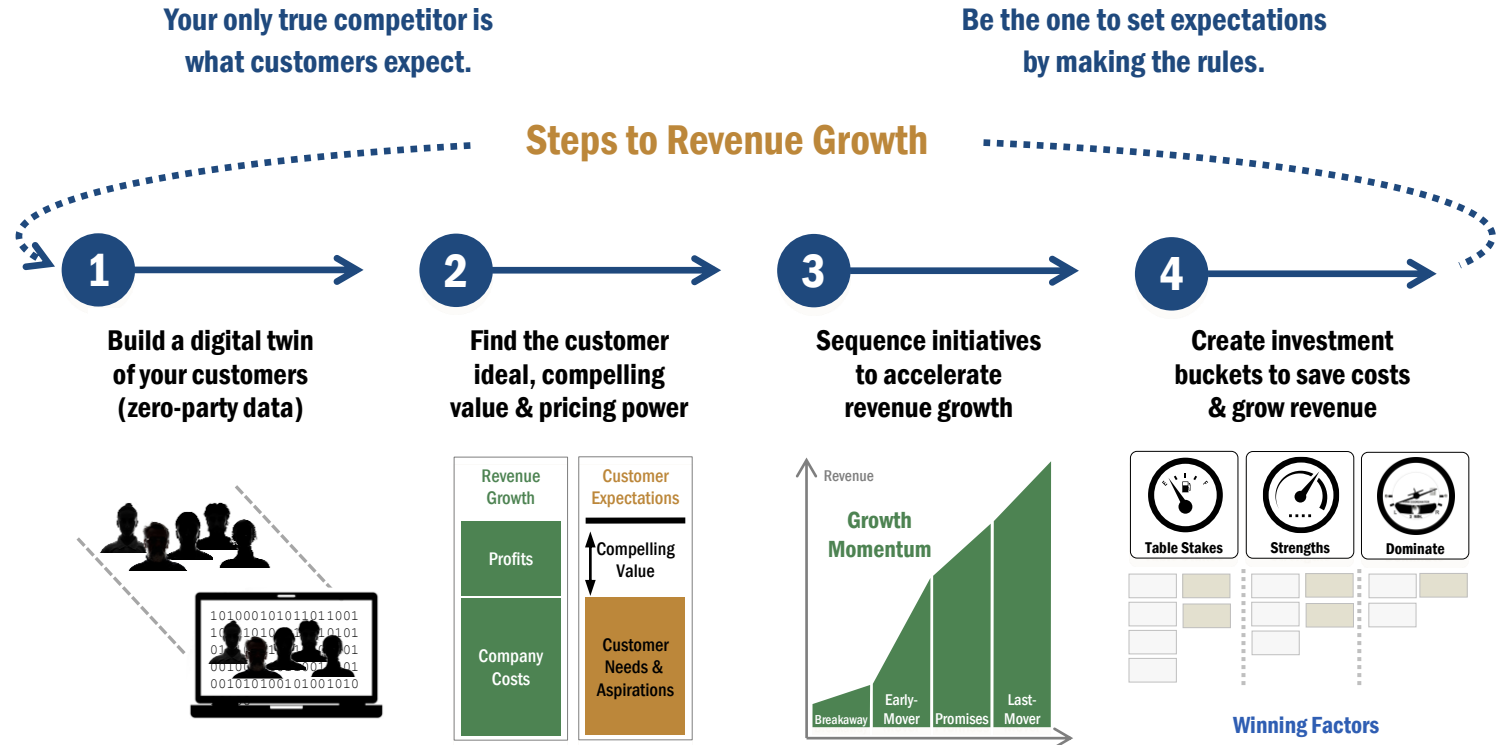
Breaking Away: It's A New Way of Thinking

We help companies leapfrog their rivals by infusing a completely new way of attacking customer value.

Rather than copying what your competitors are doing (or trying to do), we introduce a superior way to grow your revenue by introducing the only true competitor you have: What customers expect.

We measure customer expectations based on not only what they want you to do, but how they want to feel when you do it. Emotions drive customers off their status quo and create pricing power, two of the most critical aspects to revenue growth.

By setting the new rules of competition, you force rivals to continually play catch-up to your market position.



THE REPORT