

**Inter-Collegiate Business Competition**

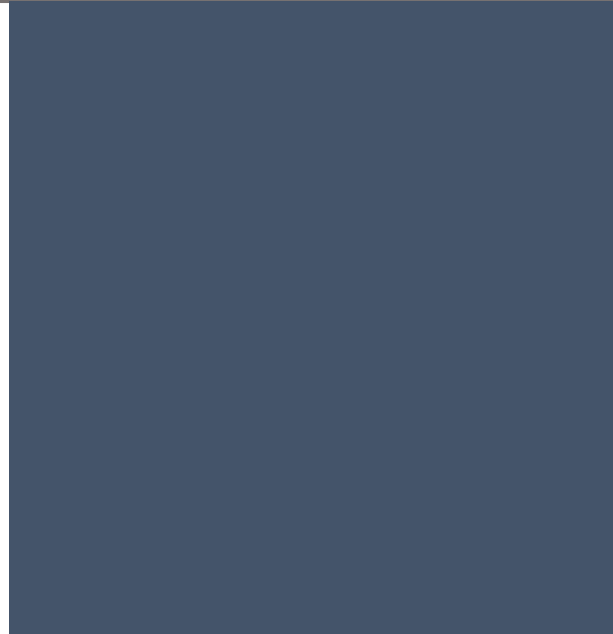
**MIS Division**

**University of Vermont**

**Submitted on October 27<sup>th</sup>, 2016**

**Alex Beard**

**Austin Kincaid**



*PropertyGuys.com –  
IT IDEas Consulting*

*Recommendation for  
Sustainable Expansion*



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## **Executive Summary**

PropertyGuys.com is currently facing the difficult decision as to how to be successful as an online retailer in a market traditionally dominated by important personal relationships.

PropertyGuys.com has been successful in the East coast of Canada, but their current challenge is how to grow into new markets while maintaining trust in their product. Because their main competitive advantage is the lower price that eliminating the middle man can provide, they have been very successful in the low-price sector that they are currently in (See Exhibit 1). However, to grow effectively they need to expand into the more competitive and higher revenue high-cost sector. To effectively compete in these markets, maintaining trust and keeping costs low are the most important goals for PropertyGuys.com.

To keep costs of scaling low it is suggested that PropertyGuys.com creates an automated system for their appraisal and scheduling. This will enable them to keep costs low while they expand, as they will remove the direct human interaction necessary in their current system (See Exhibit 5).

The downside of using solely a fully automated system is that it isn't very trustworthy, so PropertyGuys.com will add a 'Verified' tag to listings that have been visited and confirmed or listed by employees. By increasing automation to reduce costs and adding in-person verification of listings, PropertyGuys.com has the potential to excel in the housing market.

## **Introduction**

PropertyGuys.com is at a crossroads. With the rise of internet services, many business-to-consumer markets are shifting from relationship-based sales to transactional-based sales. This shift is evident in Canada in the financial services market, the home insurance market, and the auto insurance market. While personal relationships weakened in those markets, convenience and price both shifted in the customer's favor, and PropertyGuys.com is trying to shift the real estate market in the same direction. We have identified two main issues facing their company.

PropertyGuys.com has clearly been successful on the East Coast of Canada. The first issue is determining if there is potential to repeat that success throughout the rest of the country. The second issue is to determine how to realize that success through improving operations or the customer experience.

## **Analysis**

As can be seen in Exhibit 1, PropertyGuys.com's success on the East Coast over the last several years has been primarily in the greater Moncton area, a low-growth, low-price sector of the Canadian real estate market. In the high-growth, high-price sector, they will lose the advantage that comes with a lower price (less at stake for buyer), but gain the advantage of a seller's market, which reduces the need for a real estate agent. Based on this, there definitely is potential for PropertyGuys.com to expand beyond the East Coast. To realize this potential, there are two main issues they need to resolve:

### **Trust**

The first issue is convincing Canadians to trust the idea of selling their house online, as opposed to using a traditional real estate agent. Essentially, PropertyGuys.com needs to turn the real estate market in Canada from the insurance market, where there are still 85,000 agents selling insurance<sup>1</sup>, to the stock market, where the cost savings have outweighed the trust factor, making automated online advisors the norm. One way to do this is to put mechanisms in place to give customers more of a reason to trust PropertyGuys.com. Another way is to reduce the cost so much, and make it so much easier, that it becomes irrational to do anything else, causing

PropertyGuys.com to become widely adopted (leading to greater trust as customers have good experiences). A good example of a company that disrupted an industry in a similar way is TurboTax in the United States - much like PropertyGuys.com is attempting to do, they made filing your taxes so easy and cheap that it became the standard.

### **Scalability**

Another issue that needs to be resolved is scalability. As the ultimate goal is expansion, any recommendation will need to take this into account, both in pure size (more houses sold), and location (expanding from primarily East Coast to across the country). This is one of the most important factors, because as can be seen in Exhibit 2, there currently isn't anyone else in PropertyGuys.com's segment of the market. If they expand quickly, they can fully utilize their first-mover advantage.

### **Criteria**

The criteria we will use to evaluate potential recommendations will be scalability and trustworthiness (for the reasons outlined above), as well as both overall and initial cost. Cost is split up into two categories because a recommendation may have a high startup cost, but could reduce operational costs going forward.

## **Discussion (See Exhibits 3 and 4)**

### **Franchises**

What PropertyGuys.com is currently doing is adding franchises to expand their business and using their headquarters on Prince Edward Island as the call center for areas that do not have a franchise set up. With this system the franchisees pay an initial fee, and then two percent of their revenue goes to PropertyGuys.com. The advantage of this system is that it keeps the initial costs low as the franchisee pays the cost of running the franchise. The downside is that PropertyGuys.com doesn't make much money off of these franchises. If a franchise sells 10 houses per month, at an average of \$350,000, producing about \$2,500 per house in revenue to the franchise, PropertyGuys.com only makes \$6,000 per year off of the franchise. There is a moderately high level of trust with this system because you have the option to interact with a real

person, which greatly increases trust. This option is moderately scalable because of the low cost to the business, but the returns are limited, and the potential earnings of the company are much higher with other strategies.

### **Individual Branches**

Another option to try to increase profits would be to run individual branches. This would involve hiring agents and keeping lawyers and appraisers on retainer as a company as well as running and maintaining local storefronts. This would drive up costs drastically, and make expansion very cost-prohibitive, however the net margin would be much higher as all of the revenues would go directly to the company. This option would provide a very high level of trust, however the cost is a serious challenge in expanding the business, as the variable cost does not decrease with size.

### **Self-Serve Only**

A cost cutting option would be to streamline the process and shift to a self-serve only strategy. This would eliminate the need to have offices or franchises, and the business could be run from their headquarters on Prince Edward Island. This would enable PropertyGuys.com to focus on reducing costs and advertising rather than trying to grow with a physical presence. The problem with this system is that it will alienate many potential customers who are either technologically weary or don't have time to do everything themselves. There is also less trust as there wouldn't be a face to face element of the system.

### **Automation**

The last option for PropertyGuys.com involves a number of different areas of growth. The first step would be to develop a program that would calculate the home price estimate for the customer. Where the current system has the customer call and has an expert give an estimated house price, our system would be able to take all of the imputed information and calculate an expected house price. This strategy would make it easier to scale, as the bottleneck in getting to a listing would be eliminated (Exhibit 5). This would also mean that PropertyGuys.com wouldn't have to have experienced people taking pictures and doing appraisals for the full service group, except when required by a potential buyer. This could be done by less experienced workers who would then enter all of the information into the same system used for the self-service group. This

would greatly reduce long-term costs as it would centralize all of the information and appraisal to the Prince Edward Island location. It also would increase revenues because PropertyGuys.com would directly hire the photographers, who would also enter all of the information for a full service listing. These employees would be paid less than a realtor, and the revenues would be the same, increasing profits. How we would increase trust with our system is by using a ‘Verified’ tag that would be used if the information entered had been verified by one of the PropertyGuys.com employees.

## **Recommendation**

Our recommendation for PropertyGuys.com is the Automation alternative: To keep all of their operations and lawyers centralized in their headquarters, and hire direct employees to take pictures, enter descriptions, and verify locations. This would mean that anywhere in the country would have equal opportunity for the self-service portion of the listings, and it would be relatively inexpensive to expand the full-service portion with lower-paid employees, creating huge opportunities for growth. By using information systems to do a large portion of the work involved in the house listing process, PropertyGuys.com will be able to list more houses in more locations, and increase their profit (see Exhibits 6 and 8).

## **Implementation**

The implementation of this recommendation will have three key phases (see Exhibit 7):

### **Phasing out Franchises**

One of the main issues facing PropertyGuys.com with our strategy is what to do with the current franchises. This is an issue because the franchisees will likely want to keep the benefits of being a franchise, while PropertyGuys.com will benefit from having salaried employees.

PropertyGuys.com will have to negotiate with these current franchises to either buy them out or not renew their franchise agreements if they don’t want to transition into the new direction of the company. PropertyGuys.com would be willing to hire these franchisees as their new photographer/verifiers or in the headquarters, as they are already well trained for the job. The

photographer/verifier is a key position for this strategy as they improve the experience for both the seller and the buyer.

### **Algorithm**

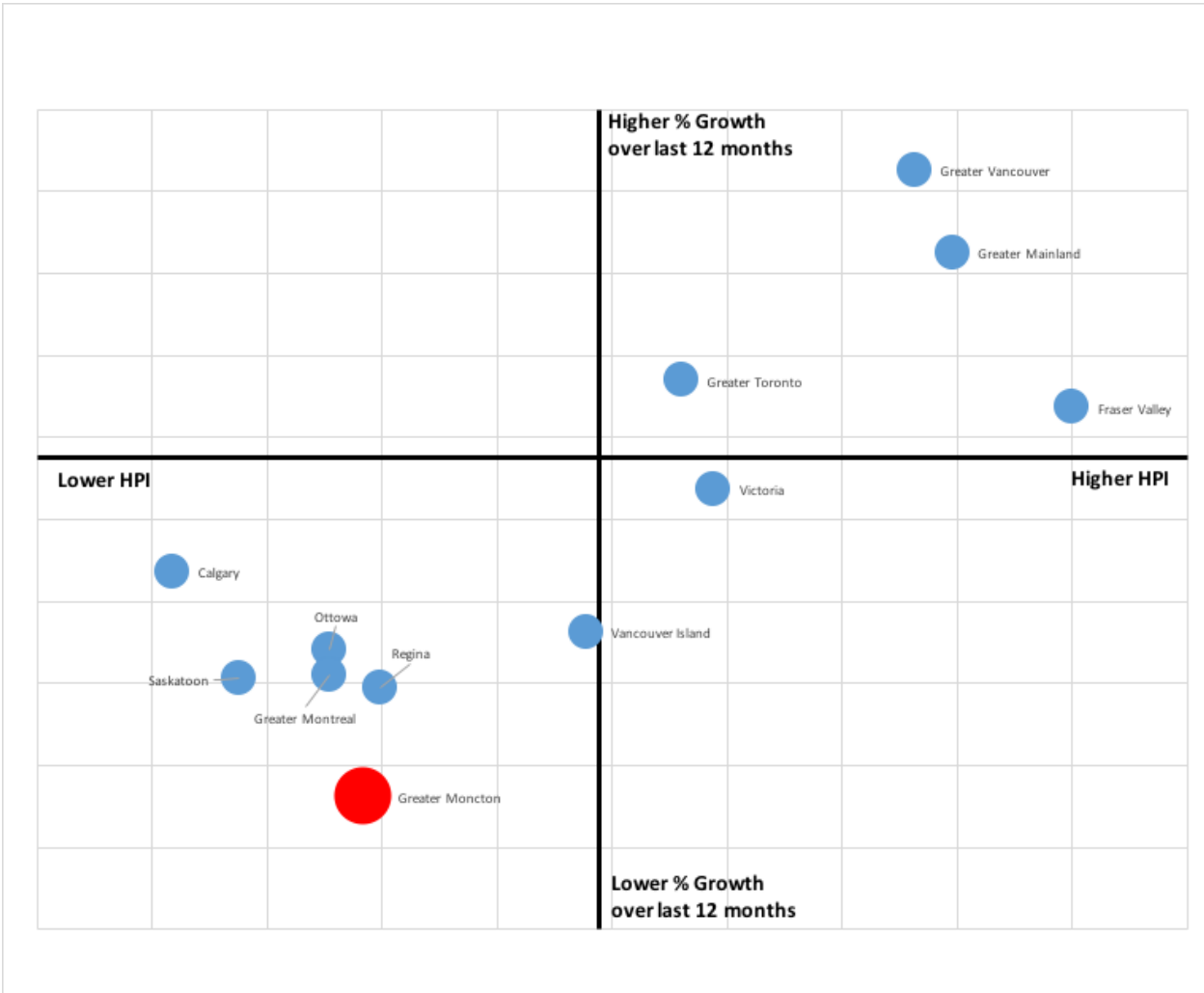
The next big project for the implementation will be creating the algorithm and computer system for automated appraisals. Propertyguys.com will contract this to a private firm, as this will significantly simplify the project. By automating the appraisal process and initial contact, PropertyGuys.com will be able to add clients and houses to the website without a person to person contact. This will significantly reduce lead time for listings to be created, and increase the number of listings possible. By using this automated appraisal system, the photographer/verifier will also be able to create a full listing for the house by just entering the information into the system, requiring very little specialized knowledge.

### **Expansion of ContactPro**

An important step for effectively implementing the automation option is to expand the ContactPro service. By expanding their online planning system, customers will be able to schedule showings, photography and verification services, meetings with lawyers, and manage contact with potential sellers. This is an important part of the system as it eliminates the bottleneck created by the human interaction involved in scheduling.

# Exhibits

## Exhibit 1: Canadian Real Estate Market



Notes:

- HPI = Home Price Index, which is a seasonally adjusted home price.
- All Data from Source X

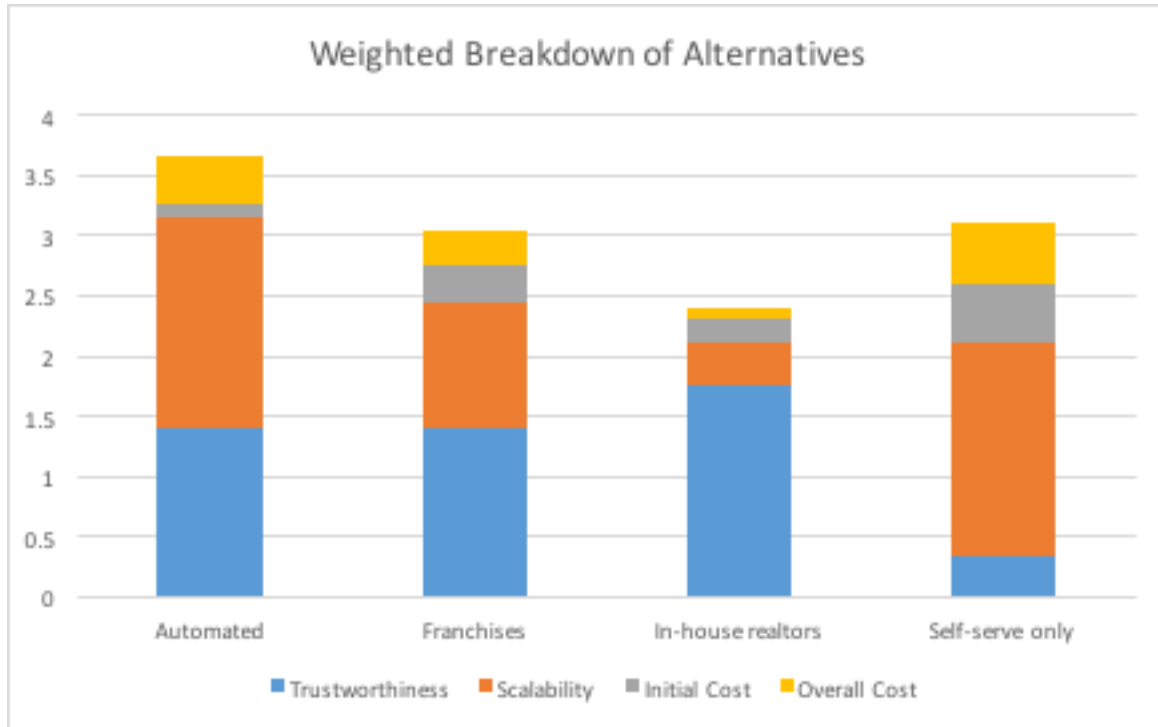
## Exhibit 2: Competitive Analysis



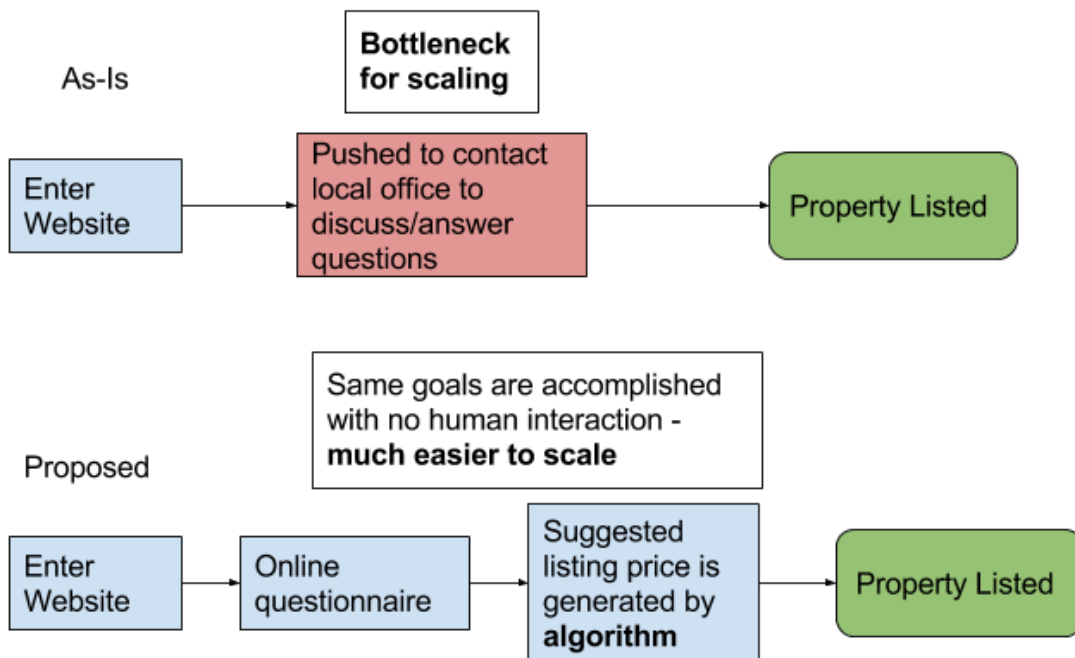
## Exhibit 3: Decision Matrix

	Criteria:	Trustworthiness	Scalability	Initial Cost	Overall Cost	Total score
	Weight:	0.35	0.35	0.1	0.1	
<b>Automated</b>		4	5	1	4	4.05
<b>Franchises</b>		4	3	3	3	3.35
<b>In-house realtors</b>		5	1	2	1	2.5
<b>Self-serve only</b>		1	5	5	5	3.6

**Exhibit 4: Breakdown of Alternatives by Weighted Criteria**



**Exhibit 5: Process Flow Shift in Recommendation**



## Exhibit 6: Financial Projection of Recommendation

	2017	2018	2019	2020	2021
Low-price sector houses sold (5% growth) <sup>1</sup>	13000	13650	14333	15049	15802
High-price sector houses sold (20% growth) <sup>1</sup>	2000	2400	2880	3456	4147
Low-price sector revenue (Avg Home Price: \$300,000) <sup>2</sup>	\$ 39,000,000	\$ 40,950,000	\$ 42,997,500	\$ 45,147,375	\$ 47,404,744
High-price sector revenue: (Avg Home Price: \$600,000) <sup>2</sup>	\$ 12,000,000	\$ 14,400,000	\$ 17,280,000	\$ 20,736,000	\$ 24,883,200
Revenue with old Franchise Model <sup>3</sup>	\$ 1,570,000	\$ 1,657,000	\$ 1,755,550	\$ 1,867,668	\$ 1,995,759
% of Revenue In-House (Transitioning)	5%	25%	75%	100%	100%
Actual Revenue	\$ 4,041,500	\$ 15,080,250	\$ 45,647,013	\$ 65,883,375	\$ 72,287,944
<b>Total Additional Revenue</b>	<b>\$ 2,471,500</b>	<b>\$ 13,423,250</b>	<b>\$ 43,891,463</b>	<b>\$ 64,015,708</b>	<b>\$ 70,292,185</b>
Expand Contact Pro <sup>4</sup>	\$ 500,000	\$ 500,000	\$ 100,000	\$ 100,000	\$ 100,000
Create Home Price Estimate Algorithm <sup>5</sup>	\$ 500,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Central Team of Lawyers <sup>6</sup>	\$ 360,522	\$ 567,536	\$ 794,550	\$ 1,021,565	\$ 1,248,579
Build a Network of Photographers/Verifiers <sup>7</sup>	\$ 385,000	\$ 2,006,250	\$ 6,454,688	\$ 9,252,563	\$ 9,974,391
Staff Call Center - In-house <sup>7</sup>	\$ 80,000	\$ 200,000	\$ 240,000	\$ 280,000	\$ 320,000
Phasing out Franchises <sup>8</sup>	\$ 1,000,000	\$ 1,000,000			
<b>Total Additional Infrastructure Costs:</b>	<b>\$ 2,825,522</b>	<b>\$ 4,323,786</b>	<b>\$ 7,639,238</b>	<b>\$ 10,704,127</b>	<b>\$ 11,692,970</b>
<b>Change in Profit/Loss</b>	<b>-\$ 354,022</b>	<b>\$ 9,099,464</b>	<b>\$ 36,252,225</b>	<b>\$ 53,311,580</b>	<b>\$ 58,599,215</b>

### Assumptions:

1: Estimated using figure given in case: Less than 10,000 homes listed in 2010

2: To estimate fees as a percentage of home price: used example given: (\$2,500 fee)/(\$350,000 home price) = 0.71% -> 1% to account for full-service as well

3: Average of 10 new franchises/year (\$55,000 fee/franchise) + 2% of revenue

4: Outsourced - continuing costs are for maintenance

5: To start - 3 full-time lawyer based in PropertyGuys HQ - \$20,000 recruiting cost first year + (141,884)\*(80%) annually (80% because Moncton is a low cost of living area). 2 more hired each year to keep up with demand.

6: \$10,000 recruiting costs, then \$500 paid to the photographer/verifier per house sold

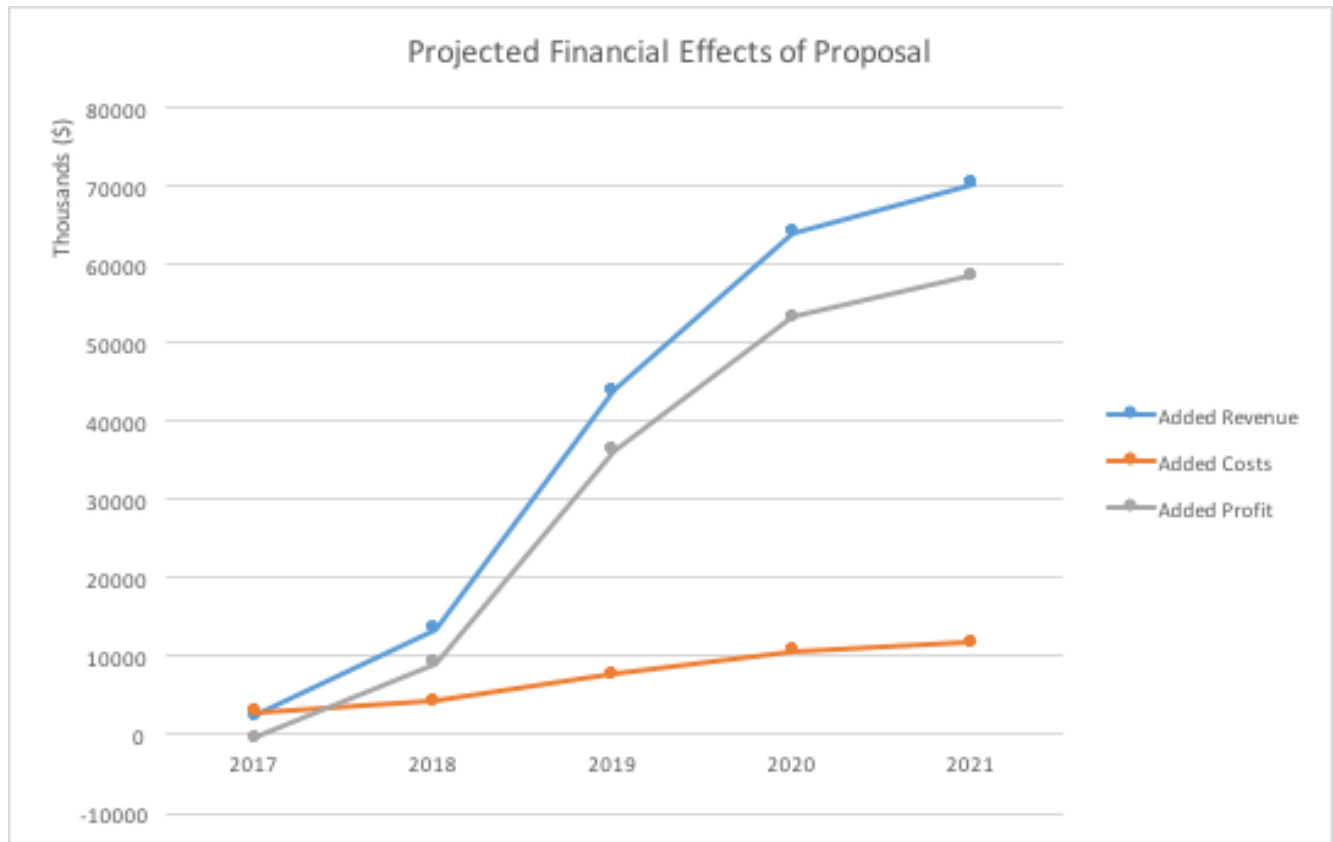
7: 2 employees (year 1) -> 5 employees + 1 new employee every year at \$40,000/employee annually

8: Average cost of \$20,000/franchise - spread out over 2 years

**Exhibit 7: Implementation Gantt Chart**

Action Item	2017	2018	2019	2020	2021
Create Home Price Estimate Algorithm					
Build a Network of Photographers/Verifiers					
Phase out Franchises					
Build Team of In-house Lawyers					
Phase out Franchises					
Expand Contact Pro					
Incorporate Algorithm into PricePro process					
Incorporate expanded ContactPro					
Test Self-Service in Larger Cities					
Fully expand into Larger Cities					

**Exhibit 8: Visualization of Financial Projection**



## Endnotes

<sup>1</sup>Tara Perkins and Grant Robertson, “Through Canada’s insurance loophole”, Globe and Mail, December 17, 2010, <http://www.theglobeandmail.com/report-on-business/through-canadas-insurance-loophole/article561111/?page=all>, accessed on October 27, 2016

<sup>2</sup>Kerry Gold, “PropertyGuys.com stumped by Vancouver house prices”, Globe and Mail, September 4, 2015, <http://www.theglobeandmail.com/real-estate/propertyguyscom-stumped-by-vancouver-house-prices/article26230545/>, accessed on October 27, 2016

<sup>3</sup>CREA Stats – National Statistics, <http://creastats.crea.ca/natl/index.htm>, accessed on October 27, 2016