



# Classifieds 3.0: The reinvention phase

The old playbook is dying. Leaders are transforming  
their business models to seek new growth



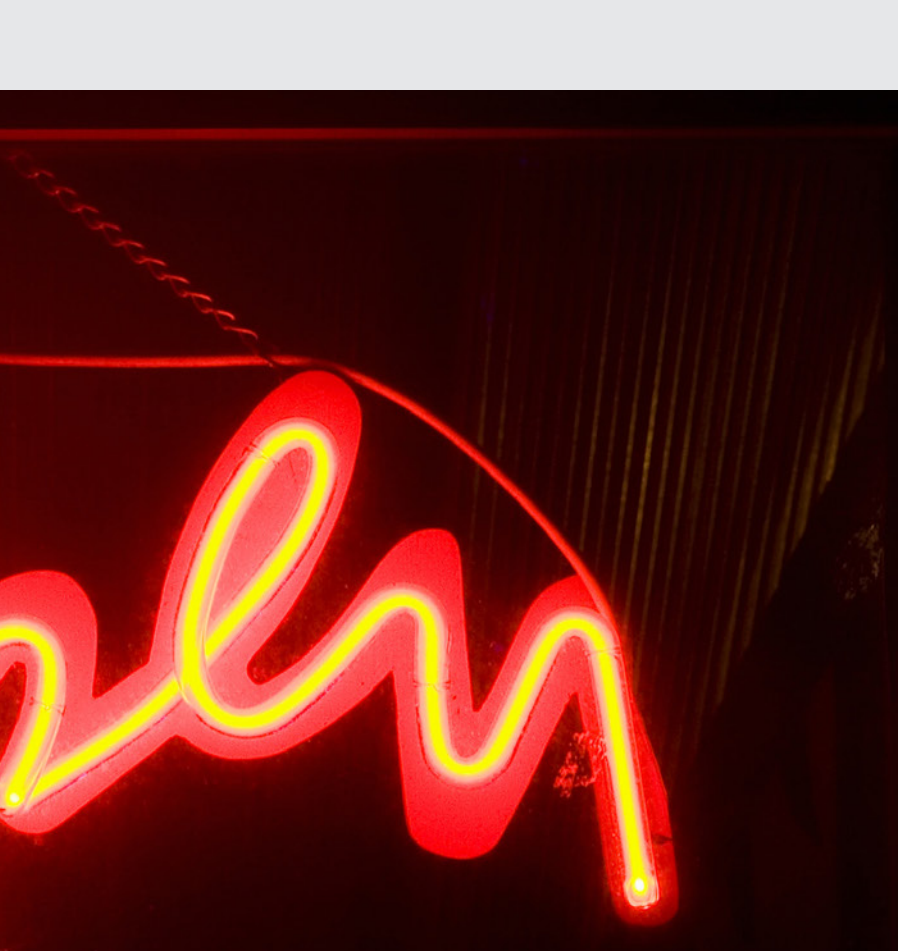
**OC&C**  
Strategy consultants

uncommon sense

For classifieds, the 'booming 2010s' were a time of extraordinary expansion, with widespread digital migration, massive growth and sky-high margins. However, as monetization has reached a natural ceiling, tailwinds have begun to evaporate in developed markets. Now, as we enter the 'reinvention phase' of market development, some are adopting radically different approaches, with no right or wrong answer.

- In the first phase of market growth, propositions emerged for the first time, attracting huge amounts of investment into the industry and stellar multiples.
- But growth has become more complicated. The transition to digital has played out and migration alone can no longer sustain a proposition. This is already visible in the performance and action of leading players.
- After the 'penetration' and 'monetization' phases, we are now entering a third phase, 'reinvention,' in which players will experiment with radical pricing models, new products, and market entry to sustain growth. Some leaders are getting closer to the transaction, becoming the broker or deploying capital to buy directly from consumers.





## THREE PHASES OF MARKET DEVELOPMENT



	Phase 1 Penetration	Phase 2 Monetization	Phase 3 Reinvention
Market growth	Very high (once monetization begins)	10-20%+ pa ~\$20-30bn globally	Under 10% pa (in developed markets) But potential for re-expansion through alternative models
Monetization model	Free/cheap basic listings Undisciplined pricing	Increasingly sophisticated and disciplined listings pricing Introduction of product upsells	Radical pricing models for brokers New business models for new products
Competitive dynamics	Multiple vertical + general players battling for brand awareness, customers and migrating spend from print	Most markets settling into stable set of 3-4 competitors (jobs classifieds aside)	Threat from aggregators and tech giants Brokers fighting back







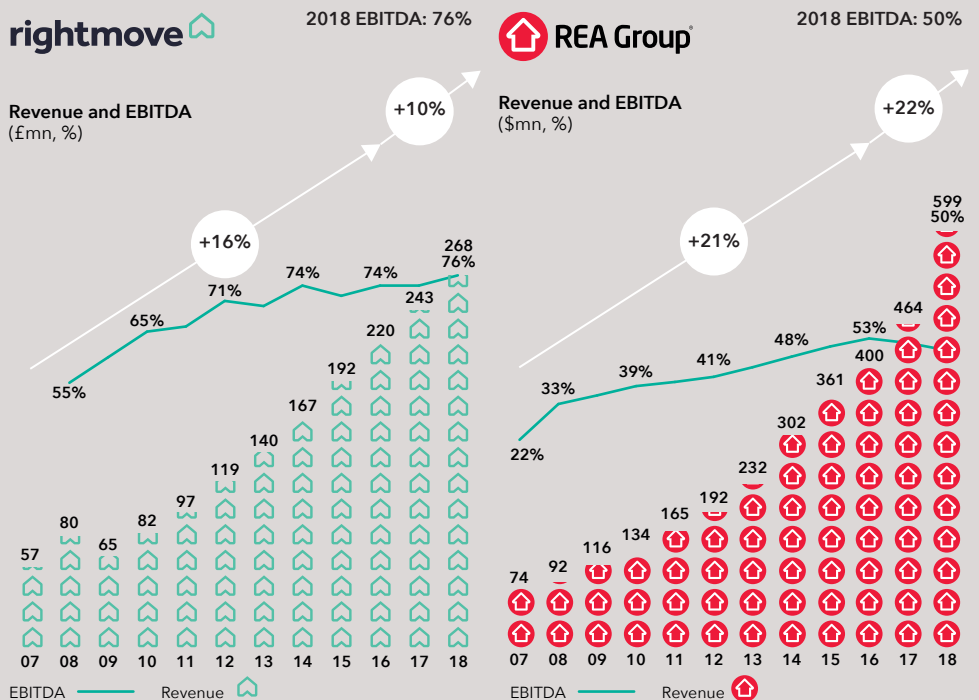
## THE 'MONETIZATION PHASE' PRODUCED SOME HIGHLY FOCUSED & PROFITABLE PLAYERS

The favorable market tailwinds from the 'monetization phase' have helped leading players in markets around the world to deliver impressive growth and high profit margins. For example, Rightmove in the UK has growth at ~15% CAGR over the last decade with EBITDA margins of 76% in 2018. Similarly, REA Group in Australia.

We have seen this growth induce a large volume of M&A activity, including some stellar multiples (~15-20x EV/EBITDA). Activity has included both investments by classified leaders to consolidate their positions and investments in classified players by private equity investors, such as **Recruit Holding's \$1.2bn acquisition of Glassdoor** and **Silver Lake's 2018 acquisition of ZPG for £2.5bn**. Fundraising has also been substantial to consolidate their positions. In 2017, **CarGurus raised \$150m** in its IPO.

Major players are creating constellations of classified businesses through M&A. From 2013-16, **Zillow** acquired **Trulia**, **StreetEasy**, and **Naked Apartments**, among other sites. Leading private equity investors such as **Apax** and **General Atlantic** have also made numerous acquisitions in this space - including **Autotrader**, **Baltic Classifieds Group**, **Nucom Group** and **Propertyfinder.ae** amongst others.

### RIGHTMOVE & REA REVENUE & EBITDA



# Risks threaten to 'crack' the traditional classifieds moat
















In addition to the slowing market growth, a number of risks potentially threaten the traditional classifieds 'moat'. Some of these are real while the impact of others are longer term, and each threat impacts different verticals to varying degrees.

Innovative business models purchasing directly from the consumer such as WeBuyAnyCar (automotive) and Nested (property) in the UK are longer term fundamental threats - both in terms of how consumer purchase as well as the role of the core customers for classified players: brokers.

Other listings models such as C2C / horizontals, aggregators and broker consortium, threatening to disrupt traditional vertical classifieds strongholds. Historically, horizontals are typically focused on lower value inventory but we are increasingly seeing players such as Leboncoin in France leveraging their traffic to appeal to professionals and successfully 'move up the ladder'.

Additionally, consumers are now turning to **non-classified solutions**, from Google to LinkedIn to Facebook, to find listings in a more familiar environment than category-specific classifieds. Like other new models, this diffused, organic change in consumer behavior represents **a threat to the fundamental role of classifieds** as the digital landscape evolves.

## 'CRACKING THE MOAT'

		More at risk?	Extent of risk?
Fundamental threats	<b>1</b> Threats to the purchase process  	Auto	Limited/slow
	<b>2</b> Threats to the broker    	Real Estate	Limited
Different classifieds models	<b>3</b> 2C / Horizontals  	Auto	Real
	<b>4</b> Aggregators: scraping and pay per lead  	Jobs	Real
	<b>5</b> Broker consortiums 	Property	Real
Classifieds alternatives	<b>6</b> Non-classifieds solutions    	Jobs and auto	Real



# So what does the reinvention phase look like?

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Based on our experience, leading players are responding to the market and competitive challenges and actively re-evaluating their strategic positioning through four types of approaches.

- 1. Optimizing services for the broker:** Doubling down on brokers to deliver superior products and services - and ultimately better returns for the customer
- 2. Building around the consumer:** Creating products, services and content to serve the consumer in order to minimize customer acquisition costs and drive cross-sell
- 3. Getting closer to the transaction:** Extending beyond marketing services to gain a share of the larger transaction profit pool
- 4. Entering new markets and consolidating scale through M&A:** Leverage existing consumers and capabilities to enter adjacent markets and new geographic territories - often through M&A



Some leaders are getting closer to the transaction, becoming the broker or deploying capital to buy directly from consumers

## CLASSIFIEDS 3.0: THE REINVENTION PHASE

Not exhaustive

### 1: Optimize services for broker

Radical pricing models

Broker 360 services

Optimize broker conversion

### 3: Get closer to the transaction

Facilitating direct broker transactions

Be the broker / "Uberization"

Deploy your own capital

### 2: Build around the consumer

Create a 'community destination'

Multi-brand strategy

Aggregate inventory from 3rd party sites

Buy consumer acquisition channels

### 4: New markets and M&A

Consumer 360 services

Enter new geographic markets

Consolidate scale through M&A

# Reinvention pioneers



## 1: Optimize services for the broker

**DOUBLING DOWN TO DELIVER SUPERIOR PRODUCTS AND SERVICES - AND ULTIMATELY BETTER RETURNS - FOR BROKERS**

### More sophisticated pricing

- Zillow in the US operates a sophisticated pricing engine for leads which varies by average house price and traffic by region
- SeLogger in France has a regional pricing model
- Jobs2Careers with pay-per-application pricing model driven by data and analytics

### Optimize conversion

- Opicity (purchased by Realtor.com in 2015) purchases and pre-screens real estate leads to help brokers improve ROI. Agents receive vetted transaction-ready leads and only pay on closed deals

### Broker 360 services

- CareerBuilder offers end-to-end recruitment services from pre- to post-hire bolstered through acquisitions



## 2: Build around the consumer

Creating services and content around the consumer in order to minimize customer acquisition costs and potentially drive cross-sell.

### Creating a 'community destination'

- CarGurus, winner of the OC&C Digital Media Index for Auto Classifieds in the US 2018, is creating a community with dealer & test drive reviews, supported by proprietary analytics, to help consumers get the best deal
- Confused.com in the UK has transitioned from a motor insurance price comparison website into broader ecosystem for motor categories (including valuation and car history checks, car maintenance services and articles and consumer guides)

### Multi-brand strategy

- SeLogger in France has created many sub-brands to appeal more directly to different customer segments





As we enter a 'third phase' of market development, leading players are adopting radically different approaches

### 3: Get closer to the transaction

EXTENDING BEYOND MARKETING SERVICES IN ORDER TO GAIN A SHARE OF THE LARGER TRANSACTION PROFIT POOL

#### Facilitating direct broker transactions

- Travel metasearch player Skyscanner offers direct booking for airlines as a 'shopfront,' integrating the airline directly into the search platform and creating a seamless user experience (and a sales uplift for airlines)



#### Be the broker / "Uberization"

- Axel Springer has invested ~€150m in online estate agents PurpleBricks and Homeday to 'break through the marketing wall' and tap into the broker commission pool
- Buyacar.co.uk acts on behalf of the consumer to facilitate a car transaction online without the consumer needing to visit a dealership



#### Deploy your own capital

- In the US, Opendoor and Zillow are making cash offers for consumer's homes. By purchasing directly, 'iBuyers' are able to extend deeper in the transaction
- WeBuyAnyCar.com makes direct cash offers for vehicles and has been operating in the UK for over a decade



### 4: New markets and M&A

Leverage existing consumers and capabilities to enter adjacent markets and new geographic territories - often through M&A.

#### Consumer 360 services

- REA Group in Australia now offers brokerage services through its acquisition of stakes in Smartline and realestate.com.au Home Loans
- Scout24 in Germany offers mortgage price comparison through its acquisition of Finanzcheck
- Zoopla / uSwitch merger in the UK aimed to monetize Zoopla's traffic through price comparison - but did not achieve its goals and was recently re-separated



#### Enter new geographic markets

- Property Finder has successfully driven growth through organic and inorganic growth across MENA

# Getting closer to the transaction

Several pioneers in the 'reinvention phase' are trying to get closer to the transaction - in order to ultimately tap into larger adjacent profit pools.

While the opportunities are vast, the risks are also real - each of these new models creates additional overheads or new risks for traditional classifieds players (for example, the unit economics of instant buyers [iBuyers] in the property market still needs to be proven).

It will be critical to learn from the winners (and losers) over the next few years.



Buyacar.co.uk enables users to purchase a car, delivered straight to the door, without having to visit a dealership



In the UK, Buyacar.co.uk is enabling consumers to buy a new car without the hassles and headaches of going to a dealership. Owned by Dennis Publishing, which also owns car sites Autoexpress.co.uk and CarBuyer.co.uk

Users can search the site's database of over 50,000 vehicles and can apply for financing directly, bypassing the dealership sales process and tapping into a broader, more transparent selection of cars. Buyacar contacts the supplying dealer and arranges delivery direct to door.





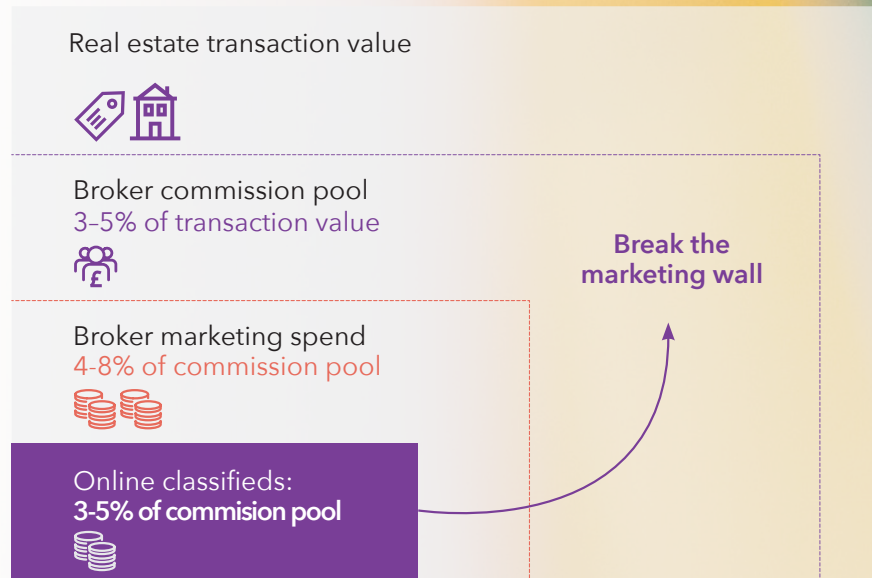
# Axel Springer invests in PurpleBricks and 'breaks through the marketing wall'



Axel Springer invested £125m in PurpleBricks in March 2018, then made a c.£25m joint investment in Homeday with PurpleBricks in October 2018.

Hybrid estate agents like Purplebricks are driving 'Uberization' of brokers through:

- Compelling and convenient low-priced consumer proposition
- Flexible agent proposition attractive to more entrepreneurial agents...
- ...enabled by cutting-edge technology that helps to support agent productivity (and remuneration).



Service offering: marketing services

1. Assumes 5-6% commission rate





Opendoor leverages capital to complete the transaction directly with consumers, extending deeper into the value chain

## Opendoor

Instant buyers (iBuyers) such as Opendoor represent a small but rapidly growing share of the US property market. These players are deploying their own capital to make cash offers for consumer's homes to increase the speed of the transaction.

iBuying in total is growing rapidly but is still only about ~15k transactions per year in the US, or less than 1% of total transaction volume.

### OTHER EXAMPLES

**webuyanycar.com**



**Offerpad**

**knock**

**Zillow**

**REDFIN**

# Key takeaways for future winners of the reinvention phase...

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## 01 Look beyond the traditional 'playbook'

Maturing markets and potential competitive risks mean we cannot afford to blindly focus on price.




## 02 The opportunity remains vast

There are many different paths available and many success stories already to learn from.

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IF YOU WOULD LIKE TO DISCUSS ANY OF THE THEMES COVERED IN THIS REPORT AND OC&C'S DIGITAL MEDIA INDEX WE'D BE DELIGHTED TO TALK.





There are many different paths available and many success stories already to learn from



## 03 Pick a strategy that reflects your market, competitive position and ownership

The right answer depends on the size and structure of your market, its competitive dynamics and your shareholders.



## 04 Think before you act - exploring new directions is risky

Risks include encroaching on existing customers, unproved business models, and economics are very different from today's.

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