INTERNET

The Puts/Takes of Amazon's Latest Move in the Neighborhood

Amazon's (AMZN, Outperform) partnership with Realogy (RLGY, NR) targets the U.S. home services and real estate lead generation verticals concurrently (TAMs of $400B and $100B, respectively), and incent more purchases of Amazon's devices (e.g. Echo, Ring, etc.). While a headline risk to ANGI (Outperform), FTDR (Outperform), YELP (Market Perform), and Z (Market Perform), we see fundamental risk as low. Specifically, three friction points limit adoption: 1) consumer behavior; 2) Realogy’s ability to screen; and 3) real estate agent and service provider density. Incrementally, this headline makes us more intrigued about upcoming partnerships for ANGI.

- Event: Amazon's latest foray into the home. This morning, Amazon and Realogy collaborated to create a new service called TurnKey (link). Interested home buyers visit Amazon.com/TurnKey and answer four questions. They are then connected with a Realogy representative to discuss the type of home they are looking at and where they are in the purchasing process. From there, consumers are sent to agents for home shopping. Once a home is purchased with a Realogy agent, consumers receive up to $5,000 in coupons for Amazon's home services and smart home products. Note that the coupon is tied to home value, with the $5,000 benefit requiring a purchase of $700,000 or more.

- The good for Amazon: TAM expansion and smart home penetration. Amazon has tried at various points to get into lead generation for home services and real estate. Today’s action is a clever way of marrying lead generation with Amazon’s connected devices efforts. Not only is the company collecting advertising revenue, it is also deepening its presence of Alexa-enabled devices in the home.

- The bad for Amazon: friction points may limit adoption. First, traffic could be challenging. Consumers do not think of Amazon for home shopping, and the site lacks the user interface consumers have come to expect (e.g. Zillow’s). Coupled with TurnKey’s merchandising on the home page, we suspect consumer awareness remains low. Second, results are highly dependent on Realogy screening. As we have observed from other real estate lead generation businesses, brokers vary in willingness and ability to prospect and consumers are often early in the purchase process. If Realogy lacks agents willing to nurture the lead, the consumer is going elsewhere. Finally, supply density matters. Amazon and Realogy are starting in a small number of markets today, and lack the same degree of scale as other participants.

- ANGI, FTDR, YELP, Z: headline negative, but minimal fundamental risk. Historically, Amazon’s actions in a category create a “sell first, ask questions later” mentality and that’s what we observed with ANGI and Z at the open. However, all four companies with home services and real estate exposure appear minimally at risk from today’s news. Supply density in a market matters. As we observed with food delivery and travel in the past, Amazon’s inability to obtain critical mass in supply limited adoption. Home services and real estate are even more fragmented. We believe that insulates companies from Amazon having a material negative effect.

- ANGI: potential for a partnership becomes more intriguing. At an investor conference in May, ANGI CEO Brandon Ridenour stated, “We have other partnerships that - some of which are known, but some of which haven’t been announced yet - that are pretty marquee that we are excited about” (note: this was in context to a question on customer acquisition). ANGI’s Handy business already partners with Walmart, Wayfair, and Crate and Barrel. It’s possible that ANGI is simply talking about more retail partnerships. However, after today’s Amazon-Realogy partnership, ANGI’s prospects of teaming with a real estate leader like Zillow become more intriguing - both are respective leaders in traffic and suppliers (ANGI - service providers; Zillow - real estate agents) across markets.
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