Industry History

Finding the right place to live has always been a challenge. Individuals looking to become homeowners have the advantage of enlisting the expertise of a realtor. However, individuals looking to simply rent are typically left to search on their own. Before the Internet boom, there were very few search options available to them. A few listings could be found in the classifieds section of a local newspaper. Others could find a “For Rent” sign or two by driving around desired neighborhoods. And others discover some options through word of mouth from friends and family. All of these avenues are tedious, tiresome and highly frustrating.

The first attempt to streamline apartment and rental home listings was headed by PRIMEDIA Inc. (owner of what is now ApartmentGuide.com) in the 1980’s. They provided a printed guide to all available apartments and rental homes in specific local markets. The Apartment Guide was offered the prospective tenant something that had not been available before, a centralized compilation of local apartments. This represented a huge advancement in the apartment search, but since each print edition was released only once a month, much of the guide’s content was out-of-date since availability changed on a daily basis.

With the emergence of the Internet and the swift acceptance of this technology by the masses, a new avenue for apartment listings emerged. In 1992, Classified Ventures LLC (owner of what is now Apartments.com) decided to take their apartment
locator service online in the Chicago area. After refining their technology and observing their success among the Chicago renters, Classified Ventures LLC was prompted to expand nationwide in 1997. In the years to follow, several other Internet listing services for rental properties joined the World Wide Web. They all have tried to enjoy the most market share by offering their services through various business models.

**Subscription Fee Model** - Some sites chose to let the apartment seekers pay a subscription in order to use their service to browse all apartment listings, while allowing the property managers to post their availability for free.

**Listing Fee Model** - Other sites offered their service for free to the apartment seeker, but charged the property managers a listing fee to post on their site.

**Pay Per Lead Model** - Another approach also provides the search for free to the apartment seeker, but only charged the property per lead that was produced from the listing site. All of these business models presented their own unique problems and challenges.

Most individuals did not want to pay a subscription fee in order to search for apartments, thus limiting the success of the user subscription model. Property management companies found that paying per Internet listing or simply paying per lead became too costly and could not guarantee successful performance in the form of a signed lease. Though these business models enjoyed a modicum of success, a substantial number of rental properties remained without tenants.
Company History

In April of 2000, Scott Ingraham and Allen Oakley Hunter Jr. co-founded Viva.com in Santa Monica, CA. Like many of the current Internet listing sites (ILS) for the rental housing industry, their aim was to enable renters to find an apartment or residential rental property online. To differentiate themselves, they constructed a business model that was able to fill the gaps left by the current ILS. They developed a pay-per-lease format instead of depending on subscriptions, listing fees, or pay-per-lead models. By November 2000, the company was able to raise $17 million in financing. Ingraham and Hunter were very strategic in securing their finances by reaching out to some of the nation’s largest apartment real estate investment trusts (REITs). The seven REITs that invested in Viva Group, Inc. controlled nearly 20 percent of the rental apartments in the United States (U.S.), providing Viva.com with immediate exposure in major markets throughout the U.S. (Gabbay).

The following May, Ingraham and Hunter purchased a new domain name for their company and six months later, in October 2001, the site was re-launched as Rent.com. Their pay-per-lease business model proved difficult to implement early in the company’s history. However, Rent.com stayed true to their vision. After approximately 18 to 24 months since the re-launch with the Rent.com domain, the company turned cash flow positive.

In October 2004, Rent.com became the most visited national ILS with a reported $40 million in revenue. The following February, eBay acquired Rent.com with a cash purchase of $433 million. Today, Rent.com is the largest apartment ILS, online or off, in the nation. They lead the market in unique visitor traffic, apartment property postings
and verified lease transactions. They have more than 5.1 million apartment units and 22,000 properties listed in more than 1,500 real estate markets across the country (Toor 1).

**Target Market**

An estimated 56 percent of Americans have intentions to relocate in 2011. This is the market that Rent.com is trying to reach - any individual with the intent to move. The primary factor fueling a move is a new job opportunity. However, there are many reasons Americans decide to move each year. The four most popular motives to move in 2011 are as follows (Apartments.com National Survey):

- Relocating for Employment Opportunities – 28.8 %
- Shopping for a Less Expensive Apartment/Rental Increase – 16.4 %
- Looking for a Bigger Apartment – 13.3 %
- Wanting to Live in a Safer Neighborhood – 5.7 %

Even within the simplified target market of potential movers, Rent.com caters to certain demographics. Their percentage of renters are distributed fairly evenly across the U.S. Their apartment seekers are almost nearly equally male and female between the ages of 18 and 34. Over half of these have children and have an annual income between $30,000 and $75,000. See the figure at the top of the following page that illustrates these demographics.
Value Proposition

Rent.com is designed as a value network; bringing together apartment seekers and apartment providers. They provide a comprehensive list of apartments to the apartment seeker based on the parameters of specific search criteria by using a clean interface and a robust search algorithm. Rent.com allows the apartment seeker to freely access detailed property listings that include such information as pricing, photographs, floor plans, virtual tours and contact information. They provide the most cost-effective method available online to property managers to list their vacant apartments with a pay-per-lease model. Additional features available to the Rent.com lessee that differentiate Rent.com from their competitors is the detailed registration process, $100 Reward Card, assistance through the “Moving Lifecycle” and unique partnerships.

Detailed Registration Process
With so many listings available, it can be daunting for a potential renter to sift through all of the options on any particular ILS. Rent.com overcomes this obstacle by having a more detailed registration process. The user is asked to provide information such as desired number of bedrooms, location radius, budget range, as well as preference for pets. They are also asked to select from a list of amenities that they desire to be included within their apartment community, such as on-site fitness center, pool, on-site laundry, dry cleaning pick-up service or a business center. By applying these key filters through their search tool, Rent.com can instantly deliver the properties that best match the users’ requirements. Much like other Internet services that require exhaustive start-up information, such as eHarmony, they are able to justify the lengthy user registration process since collecting such detailed information improves the resulting value to the user by producing more accurate results. Better results not only increase the value to the apartment seeker, but they increase conversion rates for the property managers as well. Although users do not typically like filling out such lengthy registration information, it has not deterred them from using the site. Rent.com still receives on average 4.2 million unique visitors per month.

$100 Visa Debit Reward Card

Not only does Rent.com provide the user with the best matches based upon their specific search criteria, but they reward the user for simply using their site. They are offered a $100 prepaid Visa debit card when they have found an apartment through the Rent.com website. To qualify and claim this reward is very simple. The renter must: 1) have found the property through the Rent.com website, 2) inform the property manager or leasing staff that their referral source is Rent.com, and 3) report back to Rent.com
they signed a lease with a participating property. Once Rent.com has verified the
renters claim by obtaining a signed copy of their lease from the participating property,
the renter is mailed the $100 prepaid Visa debit card. This not only provides extra
incentive for renters to repeatedly use their site, but it creates great word of mouth
marketing and strengthens the Rent.com brand. Their one millionth $100 prepaid Visa
debit card was mailed in November 2008.

“Moving Lifecycle” Assistance

Rent.com not only strives to assist the apartment seeker in finding an apartment,
but they offer several resources to lend support throughout the entire moving process.
This includes selecting the right moving company, finding a roommate and settling in a
new location. From their Moving Center main page, the renter can receive quotes from
up to six moving companies at once by simply providing information such as moving
dates and distance. There are also links that enable the renter to choose providers for
rental furniture, storage units, local utilities, even renters insurance.

Their Moving Center also provides the prospective renter with a moving checklist
to ensure that the renter does not forget even the tiniest of details during their move.
One can begin their checklist as early as five or six weeks prior to moving and continue
it all the way until three plus weeks after the move. They provide helpful tips and advice
for any stage of the moving process.

Rent.com also offers the largest community on the web for roommate searches.
Powered by Roomster.com, one can use their Rent.com account to create a Roomster
profile for other individuals seeking a roommate to identify them. One can search
profiles of individuals who already have a place to live, but are seeking a roommate.
Rent.com provides this feature to help centralize a process that can prove very stressful.

**Partnerships**

Rent.com continues to add value to their customers through their strategic partnerships. A major partnership is with Google Maps. Each apartment search is enhanced with Google Maps, allowing the apartment seeker to visually see and compare the locations of their top choices. The second major partnership is with Roomster.com. This provides Rent.com users the ability to search and secure roommates directly from their Rent.com account.

But perhaps the most meaningful partnership of all to the users is Rent.com’s reach to mobile devices. In December 2010, Rent.com extended their reach from the personal computer browser to smartphones by releasing mobile applications for Android devices, Blackberrys and iPhones. Not only can users browse apartment listings and availability via their hand held device, they will also receive updates on their smartphone of listings that meet their search criteria.

**Revenue Model**

Rent.com has been able to develop four sources to bring in revenue. Its main source is their unique pay-per-lease model. They also use a subscription model. Other sources of revenue include advertisements and a market comparison service.
Pay-Per-Lease Model

Rent.com’s main source of revenue is from their pay-per-lease business model. They are the only national ILS that uses this model. This model is best suited for large-property managers with 50 units or more located in cities with high vacancy rates. They charge the property manager $389 when a verified lease is produced through the site. A lease is considered verified only after it has been signed by the tenant. This eliminates pouring unnecessary dollars into conventional local advertising or pay-per-lead as with other sites. This makes it the single most cost-effective way available on the Internet in which property managers are able to fill their vacancies.

The main driving force behind the success of this pay-per-lease model is how well Rent.com has executed their $100 Visa debit card reward program. This revenue share model with the client assures the apartment seekers participation. In turn, this increases the likelihood that vacancies are filled for the property managers.

Subscription Model

Despite the tremendous success of the pay-per-lease model among large-property managers, Rent.com utilizes a subscription based model for small-property managers. There are two small-property classifications; the House, Condo, and Small Complex (one to four apartment units) category and the Apartment Buildings (five to 49 apartment units) category. The House, Condo, and Small Complex classification is asked to pay a flat fee of $49 per month and the Apartment Building classification is
asked to pay a flat fee of $149 per month. This flat fee is good for a 30 day listing on the Rent.com website. Rent.com guarantees, at the minimum, that the property manager will receive 15 leads within the specified 30 days time frame. If the listed property does not receive the guaranteed 15 leads, Rent.com will keep the property's listing posted for an additional 30 days free of charge, or until 15 leads have been received, whichever of these comes first.

Advertisements

Another significant source of revenue for Rent.com is from their numerous advertisers. (The actual cost to advertise is not indicated anywhere on their website.) Since Rent.com assists apartment seekers through the entire “Moving Lifecycle” there are advertising possibilities from start to finish of the moving process. The opportunities listed below are mentioned in the Rent.com media kit:
Market Comparison Service

Rent.com has partnered with VaultWare, a leading provider of Internet marketing and leasing solutions for the apartment industry, to launch VaultWare Market Comps. This is a research tool that helps property managers to eliminate the time spent calling numerous competitive properties to obtain their current rental rates. Instead they automatically provide weekly updates to a defined set of comparables for participating properties. Any property listed on Rent.com can subscribe to this service with a monthly rate that is determined by your property size and regional location (PR Newswire).

Cost Considerations

One of the main cost considerations that Rent.com has to factor each month is the number of $100 reward cards they distribute. Since the number of apartment seekers claiming a reward card varies from month to month, it is hard to estimate how much they will spend on this each month.

Other than the rewards program Rent.com only has to worry about costs related to headquarters overhead, server hosting and maintenance, as well as payroll expenses. Since Rent.com only has about 30 employees and they have only one headquarters operation, these two expenses are relatively minimal and fixed. Server hosting and maintenance would likely represent the greatest cost of daily operations.
Competitors and Rivals

Rent.com competes in a market that is inundated with other players. Not only are they directly competing against other ILS websites, but against conventional methods that are still prevalent and contemporary methods that challenge their business model. This is illustrated best by a recent Apartments.com survey. It is clear that renters are tapping multiple resources to find their next apartment. Depicted in the table is how renters ranked their top apartment shopping tools.

<table>
<thead>
<tr>
<th>Search Method</th>
<th>Percentage Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet Listing Service (i.e. Rent.com, Apartments.com, etc.)</td>
<td>80.9 %</td>
</tr>
<tr>
<td>Online Apartment Classified Listing Websites (i.e. Craigslist, RentWiki)</td>
<td>46.2 %</td>
</tr>
<tr>
<td>Search Engines (i.e. Google, Yahoo!, Bing)</td>
<td>38.4 %</td>
</tr>
<tr>
<td>Word of Mouth</td>
<td>31.1 %</td>
</tr>
<tr>
<td>Local Newspaper</td>
<td>27.1 %</td>
</tr>
</tbody>
</table>

Even though all of the top online players differentiate themselves with their revenue models, they all use the same apartment marketing and leasing software provider, VaultWare, to list their apartments and residential rentals. The table below identifies and compares VaultWare’s ten most popular apartment search websites for the years 2009 and 2010. These websites are ranked based on the number of prospective renters checking apartment availability (PR Newswire).

<table>
<thead>
<tr>
<th>2010 Rank</th>
<th>2009 Rank</th>
<th>Website</th>
<th>Availability</th>
<th>Searches per Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Craigslist.org</td>
<td>186.1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Rent.com</td>
<td>155.2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>Apartments.com</td>
<td>119.7</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>ForRent.com</td>
<td>75.0</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>8</td>
<td>Move.com</td>
<td>55.5</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>7</td>
<td>ApartmentFinder.com</td>
<td>40.2</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>9</td>
<td>ApartmentGuide.com</td>
<td>25.1</td>
<td></td>
</tr>
</tbody>
</table>
Apartments.com is the leading national apartment subscription based service with more than 50,000 unique property addresses that represent millions of rental units. Like Rent.com, Apartments.com provides the renter with similar search value. Their website displays real time property information, virtual tours, photos, floor plans and mobile applications. However, the difference is in the value to the property manager. Apartments.com allows a property manager to list their community for a flat monthly fee. Whereas Rent.com appeals to large-property managers, Apartments.com subscription based model tends to be much more economical for small property managers. Some managers also prefer the subscription model because it is easier to determine their monthly budgets. However, with this model there are no guarantees on leads or leases produced from the site.

This particular ILS poses a unique threat to the way Rent.com conducts business. ApartmentGuides.com is owned and operated by PRIMEDIA Inc., a leading provider of not only online tools for apartment rentals, but also for print and mobile platforms. They were founded in 1975 and have been publishing the Apartment Guide
almost since their inception. In a recent study conducted by ApartmentGuide.com, the users of the site were asked how they ended up using this site’s services. More than 50 percent said from The Apartment Guide magazine (Brennan 10). They are able to leverage their traditional print advertising to boost their Internet advertising, an advantage Rent.com does not have. This Atlanta based company’s successful use of print and web listings has boosted them to the second spot for pay-per-lease sites (Business Wire). With exclusive rack rights at popular stores such as Kroger and RiteAide and with 90 percent publication turnover rate they pose a very viable threat to only ILS that only has an Internet presence.

Craigslist.org is not typically considered a normal competitor to Rent.com, but with more than 50 million U.S. users and 20 billion page views per month they pose a threat nonetheless. Craigslist.org does not use an ILS, but employs an online classifieds model. They were founded in 1996 in San Francisco, CA. What started as an e-mail listing of various San Francisco events turned into the largest compilation of local classifieds in the world, ranking seventh worldwide among English-language page views. Although there are postings for everything from jobs, goods and services, to local activities and advice, the number of properties and individuals listing rental options and the number of people searching for rentals has increased dramatically over the past five years. This avenue for rental listing has greatly increased mainly because apartment seekers are able to search for listings for free and property managers are able to post listings for free. With the exception of brokered apartments in New York City, Craigslist.org does not earn their revenue from the rental listings. Instead, they
make their revenue by charging for job listings in a few major US cities, such as San Francisco, Los Angeles, and New York.

A brand new threat to Rent.com is RentWiki.com. They announced their launch in December 2010 (Turnbull). It is the very first rental site that allows apartment hunters to discover not only the basic statistics of a particular property, but to investigate the neighboring community as well. They have accomplished this by integrating social media and networking features with the property listings. RentWiki.com allows existing renters to contribute content about their neighborhood, as well as interact with potential neighbors before the latter commit.

All of the other competitors to Rent.com focus solely on apartment features. But RentWiki.com offers an unprecedented, interactive look at the daily life of a neighborhood by utilizing the wiki format with locally contributed content. There are content sections about all the following areas:
• Neighbors – What do the local residents think of the area?

• Social Scene – Quality and Ease of Access to Bars, Clubs, Restaurants and Cafes

• Value – How do the prices measure up to quality of life?

• Transportation/Parking – Ease of Access to public transport and/or parking availability

• Pet Friendliness/Unfriendliness

• Entertainment/Recreation – Quality of & Access to local theaters, parks or trails

• Essentials – Available grocery stores, banks, gyms, etc.

• Family Information – Available schools, churches and community centers

• Recommendations – The inside information on local in’s and out’s

This content is screened by both the property managers and the site users. Malicious or inappropriate content is removed.

**Challenges**

One of the largest challenges that Rent.com faces is ensuring that the information posted by each property manager remains accurate and up-to-date (Bell 65). Since 64 percent of apartment seekers indicated that being able to check real time availability as what matters most in their apartment search, Rent.com needs to make certain the property manager and leasing staff are trained properly. They need to know how to update unit availability and pricing information and how to keep it as current as possible. This would assure that Rent.com succeeds as an online venture, and their respective clients fill their vacancies and find an appropriate habitat.
A second challenge to Rent.com is that apartment seekers never seem to be sold by community statistics alone. According to Becky Swan, an experienced realtor, “People are not going to [rent] a home on the Internet. They are going to shop on the Internet to narrow their search because [choosing] a home always will be an emotional decision…You’re not going to [sign] until you walk through” (Gendler 04H). Rent.com needs to keep this concept in mind when designing their website interface. It needs to provide the most authentic version of an apartment as possible in order to persuade apartment seekers toward making a decision before they even set foot on a particular property.

The Future

The momentum that Rent.com currently has will only take it so far into the future. It needs to carefully analyze the developing threats to stay ahead. The greatest weakness (and potential opportunity as well) is Rent.com’s inattention to the ever growing realm of social media. Since they apparently enough capital, an opportunistic way to integrate social media as a valuable feature for the apartment seeker would be for Rent.com to acquire the popular apartment rating website ApartmentRatings.com. It is important to remember that prospective renters care what current renters say about a property. This information is essential to their decision making process. No matter how wonderful an apartment’s statistics may appear, a decision will not be made until they apartment seeker determines how others view a property. Integrating their pay-per-lease model with ApartmentRatings.com’s popularity would make Rent.com a most formidable competitor.

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Toor, Daryl. "eBay's Rent.com Makes Finding Off-Campus Apartments Easier; America's Largest Apartment Website Allows Campus-Bound Students to Search for Apartments by University and Receive $100 Bonus." Business Wire 29 December 2005.


“VaultWare Launches Apartment Comp Survey Tool: Competitive Rent Data Automatically Updated Weekly for 25,000+ Apartments.” PR Newswire 08 Apr. 2011.
Teaching Note
Rent.com

Teaching Note

Case Summary:
The first attempt to streamline apartment and rental home listings was headed by PRIMEDIA Inc. (owner of what is now ApartmentGuide.com) in the 1980’s. They provided a printed guide to all available apartments and rental homes in specific local markets. The Apartment Guide was able to offer the prospective tenant something that had not been available before, a centralized compilation of local apartments. This was a huge advancement in the apartment search, but since each print edition was released only once a month, it meant a lot of the guide’s content was out-of-date since availability changed on a daily basis.

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Other sites offered their service for free to the apartment seeker, but charged the property managers a listing fee to post on their site. Another model also provided the search for free to the apartment seeker, but only charged the property per lead that was produced from their site. All of these business models presented their own problems and challenges. Most individuals did not want to pay a subscription fee in order to search for apartments, thus limiting success of the user subscription model. Property management companies tended to find that paying per Internet listing or simply paying per lead became too costly and could not guarantee successful performance in the form of a signed lease. Though all of these sites enjoyed a small amount of success, they still left a gap among Internet listing site providers for rental properties that needed to be filled.

In April of 2000, Scott Ingraham and Allen Oakley Hunter Jr. co-founded Viva.com in Santa Monica, CA. Like many of the current Internet listing sites (ILS) for the rental housing industry, their aim was to enable renters to find an apartment or residential rental property online. To differentiate themselves, they constructed a business model that was able to fill the gaps left by the current Internet listing sites by developing a pay-per-lease business model, instead of depending on subscriptions, listing fees, or pay-per-lead models. By November 2000, the company was able to raise $17 million in
financing. Ingraham and Hunter were very strategic in securing their finances by reaching out to some of the nation’s largest apartment real estate investment trusts (REITs). The seven REITs that invested in Viva Group, Inc. controlled nearly 20 percent of the rental apartments in the United States (U.S.), providing Viva.com with immediate exposure in major markets throughout the U.S.

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The case can be integrated with such courses as electronic commerce, information technology as well as business policy and strategy at both upper-level undergraduate and MBA curriculum.

Discussion Questions:
1. How do the “Competitive Landscape-Transforming Properties of the Internet” drive the Rent.com business model?
2. How does Rent.com generate accounting profits?
3. What is the primary value configuration of Rent.com?
4. Other issues
Responses to Rent.com Discussion Questions

1. How do the “Competitive Landscape-Transforming Properties of the Internet” drive the Rent.com business model?

Rent.com may utilize, to some degree, all ten properties of the Internet as shown below. A short definition with application to this Internet listing site (ILS) is given beneath the table. The table might be pre-boarded or made into a slide to facilitate class discussion.

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediating Technology</td>
<td>Rent.com represents a mediating technology in that it interconnects parties that are interdependent or desire to be. Potential apartment renters obviously want to be connected to rental properties inexpensively and with a high service level. This mediating technology is business-to-consumer (b-c) rather than consumer-to-consumer (c-c) or person-to-person (p-p).</td>
</tr>
<tr>
<td>Universality</td>
<td>Rent.com, as the Internet itself, has the ability to shrink or enlarge the world. Geography no longer matters in connecting potential apartment renters (in Florida perhaps) with rental properties located anywhere (i.e., California) where Internet access is available. A person in the most remote area of the country, assuming Internet connectivity, can avail themselves of the Rent.com service.</td>
</tr>
<tr>
<td>Network Externalities</td>
<td>Rent.com becomes more valuable to users (apartment seekers and property managers) as more customers take advantage of it. As volume increases, more rental properties become available likely resulting in better service (e.g., more filled vacancies and more property choices. From Metcalfe’s Law, the value of a network (like Rent.com) increases as the square of the number of participants in the network (i.e., ( V = N^2 )). The increase in value of the network from size might be exponential (( N^3 )).</td>
</tr>
<tr>
<td>Distribution Channel</td>
<td>The Internet acts as a distributor for products that are largely digital like streamed movies and music files. However, for the apartment rental business, only transaction information is shared via the Internet. The distribution channel property applies readily to the streaming or downloading of digital products, but only to a minimum otherwise. There is a replacement effect if the Internet is used to service the same customers sans attracting new customers; and there is an extension effect for those customers who had not used this type of service before in the brick and mortar economy. Both replacement and extension effects may be facilitated by Rent.com.</td>
</tr>
<tr>
<td>Information Asymmetry Shrinker</td>
<td></td>
</tr>
<tr>
<td>Low-Cost-Standard</td>
<td></td>
</tr>
<tr>
<td>Creative Destroyer</td>
<td></td>
</tr>
<tr>
<td>Transaction-Cost Reducer</td>
<td></td>
</tr>
</tbody>
</table>

**Time Moderator** – This property enlarges and shrinks time for clients of Rent.com. In contrast to paper catalogues of available apartment rentals, or newspaper advertisements, Rent.com offers a variety of services that are available 24/7 including searching, requesting, posting and general website interaction regarding rental properties.

**Information Asymmetry Shrinker** – Information asymmetry exists when one party to a transaction has more information than the other. Usually the seller of a product or service has significantly more information about cost and quality than the purchaser. In the case of rental real estate, this property of the Internet might be quite effective in giving more and better information to potential renters, i.e., the buyers of the rental home service.

**Infinite Virtual Capacity** – The Internet often gives users the sensation that it has unlimited capacity to serve. From this property, a client (either a prospective lessee or property manager) does not seemingly wait in a queue to join this market place, execute a transaction, search listings or post a property available to lease. This effect results from [Gordon²] *Moore’s Law* that predicted about 30 years ago that every 18 months computer power would double with costs remaining constant.

**Low-Cost Standard** – Adoption of the Internet and the exploitation of its properties has been relatively easy for enterprises such as Rent.com. The Internet and the Web are open standards available to anyone, anywhere and are not difficult or expensive to use. Furthermore, the cost of the Internet is much lower than earlier types of electronic communications like EDI. Rent.com does not leverage this property of the Internet to any significant degree, and no more than any other Internet business such as Amazon.com, etc. that do not provide digital products or services like music and movies.

**Creative Destroyer** – This property of the Internet as exploited by Rent.com provides an example of J. A. Schumpeter's “creative destruction”. Any solely brick and mortar or print based catalogue or listing of rental properties has been nearly rendered obsolete. Online apartment searching services like Rent.com offer real value to clients (apartment seekers as well as property owners) courtesy of multiple properties of the Internet. Newspaper listings are at risk, as well as traditional catalogues or booklets distributed at off-line retailers such as grocery stores and pharmacies.

**Transaction-Cost Reducer** - The Internet, through firms like Rent.com has greatly reduced the costs of searching for information on apartments available to lease. The competing or traditional off-line operation typically requires perusing print media, not organized to be readily searched by various criteria.

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² Gordon Moore was a co-founder of Intel Corporation and holds a Ph.D. in physics.
2. How does Rent.com generate accounting profits?

According to Teece\(^3\), two things determine the extent to which a firm can profit from its technology: the imitability of the technology and complementary assets. Imitability is the extent to which the technology can be copied, substituted, or leapfrogged by competitors. Low imitability may derive from the intellectual property protection of the technology, from the failure of potential imitators to have what it takes, or from the inventor’s strategies to sustain its lead.

Complementary assets are all other capabilities – apart from those that underpin the technology or invention – that the firm needs to exploit the technology. These include brand name, manufacturing capability, market share and marketing prowess, distribution channels, service, reputation, installed-base of products, relationships with clients or suppliers, and complementary technologies (like migration to mobile devices). Being the first-mover in an industry might also be a complementary asset as it was for eBay. And a large pile of cash or ready assets, billions like Microsoft, Apple, Cisco Systems. Such liquid assets can be used to buy technology (in lieu of research and development) or even other businesses or competitors.

<table>
<thead>
<tr>
<th>Complementary Assets</th>
<th>Freely Available or Unimportant</th>
<th>Tightly Held and Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imitability of Technology</td>
<td>High</td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>IV</td>
</tr>
<tr>
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<tr>
<td>II</td>
<td></td>
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<tr>
<td>III</td>
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</tr>
</tbody>
</table>

The complementary assets grid (shown above) suggests when a firm is likely to profit from an innovation. When imitability is high, it is difficult for an innovator to make money if complementary assets are easily available or unimportant (cell I). If, however, complementary assets are tightly held and important, the owner of such assets makes money (cell II). This grid could be pre-boarded or placed on a slide to facilitate discussion.

When imitability is low, the innovator stands to profit from it if complementary assets are freely available or unimportant (cell IV). When imitability is low and complementary assets are important and difficult to acquire as in cell III, whoever has both or the more important of the two wins. Patent protection dramatically limits, or at least slows, the ability of competitors to directly copy the process technology.

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All things considered, Rent.com is likely across the top row of the complementary asset grid indicating a technology that is not difficult to copy. Someone else doing essentially the same thing provides prima facie evidence that the technology can be copied or substituted, although not with precisely the same extensive technology or processes. They were not the first Internet listing service for apartments. Apartments.com offered an online service for the Chicago area in 1997. They were quickly emulated and did not enjoy much first mover advantage.

Another issue is to determine whether any complementary asset(s) (as described earlier) is tightly held by Rent.com. Rent.com enjoys an emerging brand name because of their unique value proposition, a positive and growing member service reputation and strong relationships with property owners. They developed a pay-per-lease model to aid property managers (lessors) combined with the $100 VISA debit card reward for lessees.

Rent.com has partnered with Google Maps, allowing each apartment seeker to visually see and compare the locations of their top choices. They also work with Roomster.com to allow Rent.com users to search and secure roommates directly from their Rent.com account. In addition, VaultWare automatically provides updates to Rent.com property members on market conditions and rental rates. Rent.com tightly holds these service advantages and profits accordingly. They also provide “Moving Lifecycle” assistance from their Moving Center, helping with the selection of moving companies, rental furniture, storage units, utilities and renters insurance.

As they are positioned across the top row of the grid and holding (at least relatively tightly) some complementary assets that are clearly important for their industry, Rent.com is likely positioned in cell II with the potential to earn accounting profits from their complementary assets but not profit from any specific technology. If they were positioned in cell III, profits would result not only from the complementary assets but also from their technology.

3. What is the primary value configuration of Rent.com?

As the foundation of every business, there is a value configuration: The enterprise is adding value in some manner that makes customers and clients willing to pay for products and/or services and return for more. Researchers⁴ have identified three fundamental value creation configurations in the economy. These models or typologies are termed value chain, value shop and value network and derived from Thompson’s⁵ three generic organizational technologies (i.e., long-linked, intensive and mediating technologies).

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The Internet influences the activities of Rent.com as if it were largely a value network in these ways. It compounds network externalities, widens the geographic scope of the network and enables a larger scale of the network.

The network externality influence is the most important property impacting the value network, as the size of the network is the most important criterion for users considering this category of business. Once a firm like Rent.com enjoys a small advantage in the size of their network, the masses will rush to the larger network and abandon the smaller rivals. This makes it extremely important for intermediaries like an Internet listing service to develop the size of their network and create switching costs and lock-in customers to be financially successful. The larger network most likely would increase the number of rental properties available to network members.

The Internet widens the geographic range of the network enterprise, being especially important as the size of the network affects its value to users. A larger physical base of clients allows the network to grow quicker.

Better infrastructure operation allows the value network, i.e., Rent.com, to have a larger scale – the primary manner in which a network-type enterprise can add value. Increases in computer power enable Rent.com to serve substantially more clients (lessors and lessees alike) and thereby increase the value of their network.

The focus of Rent.com’s value network is on brokering, enlarging the network of users, service provisioning as well as infrastructure operations. For this type of online business venture, the Internet allows for a larger scale of the network, wider geographic scope and faster compounding of network externalities - all of which are very critical for any value configuration.

4. Other Issues

During case discussion, other analytical approaches can be utilized such as a SWOT (strengths, weaknesses, opportunities and threats) analysis or general business model approach including target market, value proposition, revenue sources, competitors, etc. Such information is readily available in the case: target market, page 4; value proposition, page 5; revenue model, page 8, cost concerns, page 11; competitors, page 12; and, future prospects, page 16.

The first three discussions questions assume that the case will be incorporated in a technology focused course. Nevertheless, the case analysis outlined in this note can be easily adapted for other teaching emphasis, especially strategy oriented courses.