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Making Uncommon Knowledge Common

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Making Uncommon Knowledge Common

The Rich Barton Playbook for winning markets through Data Content Loops

Preface: This is part of a longer private memo analyzing Zillow and its recent shift towards Opendoor's model. May publish rest of memo at some later point. But wanted to share first part, on Rich Barton and Zillow's initial rise.

Have had many recent conversations with people in tech who didn't know who Rich Barton is. So wanted to share this both as primer on him and on the cornerstone of his repeated successes.

When Michael Jordan returned to basketball from retirement—the first time, in his prime, not the second time of which we do not speak—the whole world watched in awe. Meanwhile, the tech world just saw the return of arguably the GOAT of consumer tech, the founder of three household names in Expedia, Glassdoor, and Zillow. And hardly anyone, even inside Silicon Valley itself, paid it any mind.

Rich Barton is hardly a household name. Perhaps this is because he's not based here, and makes relatively few investments. However, while there are more visible founders (like Bezos and Zuckerberg) who've built bigger businesses, market cap and notoriety aren't the only measures of a founder. And Barton is a strong contender for the title of best consumer tech founder because of his repeated success. He's founded three consumer companies each worth over a billion dollars with Expedia ($18.6B), Zillow ($8.8B), and Glassdoor (Said to have been acquired for $1.6B).

And he's back, having returned to the helm of Zillow as it pivots to respond to a new wave of fast rising competitors like Opendoor.

Repeatable success is key, especially in Consumer tech which is one of the hardest areas to succeed in. Companies that sell to large Enterprise customers are relatively well understood now, and even our understanding of SaaS metrics and business model decisions has matured a lot over the last decade. The Consumer tech sector, however, remains dark magic. The playbooks are far less developed—and no one’s playbook has demonstrated the repeatability of Rich Barton’s.

There are a few consumer investors who have multiple multi-billion dollar wins. But it’s hard to name people who have founded three consumer companies worth over a billion dollars each.

To reliably successfully invest in consumer is a rare feat; to repeatedly found successful companies is virtually unheard of. Doing so suggests a founder has hit upon an underlying structural playbook that isn’t yet commonly known, or successfully replicated. And while some of Rich Barton’s techniques are commonly understood, his core strategy to catalyze his compounding loops is not.

So What’s the Playbook?

If you’re reading this, you’ve likely used Zillow, Glassdoor, and Expedia before. It’s hard to look on the internet for anything related to real estate, jobs, or travel and NOT see one of Rich Barton’s companies. Their ubiquity is stunning.

But it's not coincidental.

Rich Barton's companies all became household names by following a common playbook.

The Rich Barton Playbook is building Data Content Loops to disintermediate incumbents and dominate Search. And then using this traction to own demand in their industries.

Or as he puts it "Power to the People"

Much of what Rich Barton pioneered has now become mainstream. SEO/search is well saturated, and the importance of owning demand has been popularized by Ben Thompson's many essays on (Demand) Aggregation Theory. But the cornerstone of Rich Barton's playbook, Data Content Loops, are still underappreciated and rarely used.

Owning demand gives companies a compounding advantage, but needs to be bootstrapped. When a company is just starting out, it not only doesn't own demand, it has all the disadvantages of competing against others that do.

In order to grow their demand high enough to become a beneficial flywheel, Barton's companies use a Data Content Loop to bootstrap their demand and create unique content and index an industry online (homes for Zillow, hotels and flights for Expedia, companies for Glassdoor).

- **Expedia:** Prices for flights and hotels that before you'd have to get from travel agent
- **Zillow:** Zestimate of what your house is likely worth that before you'd have to get from broker
- **Glassdoor:** Reviews from employees about what a company is like that before you'd have to get from a recruiter or the company itself

These Data Content Loops help the companies reach the scale where other loops like SEO, brand, and network effects can kick in.

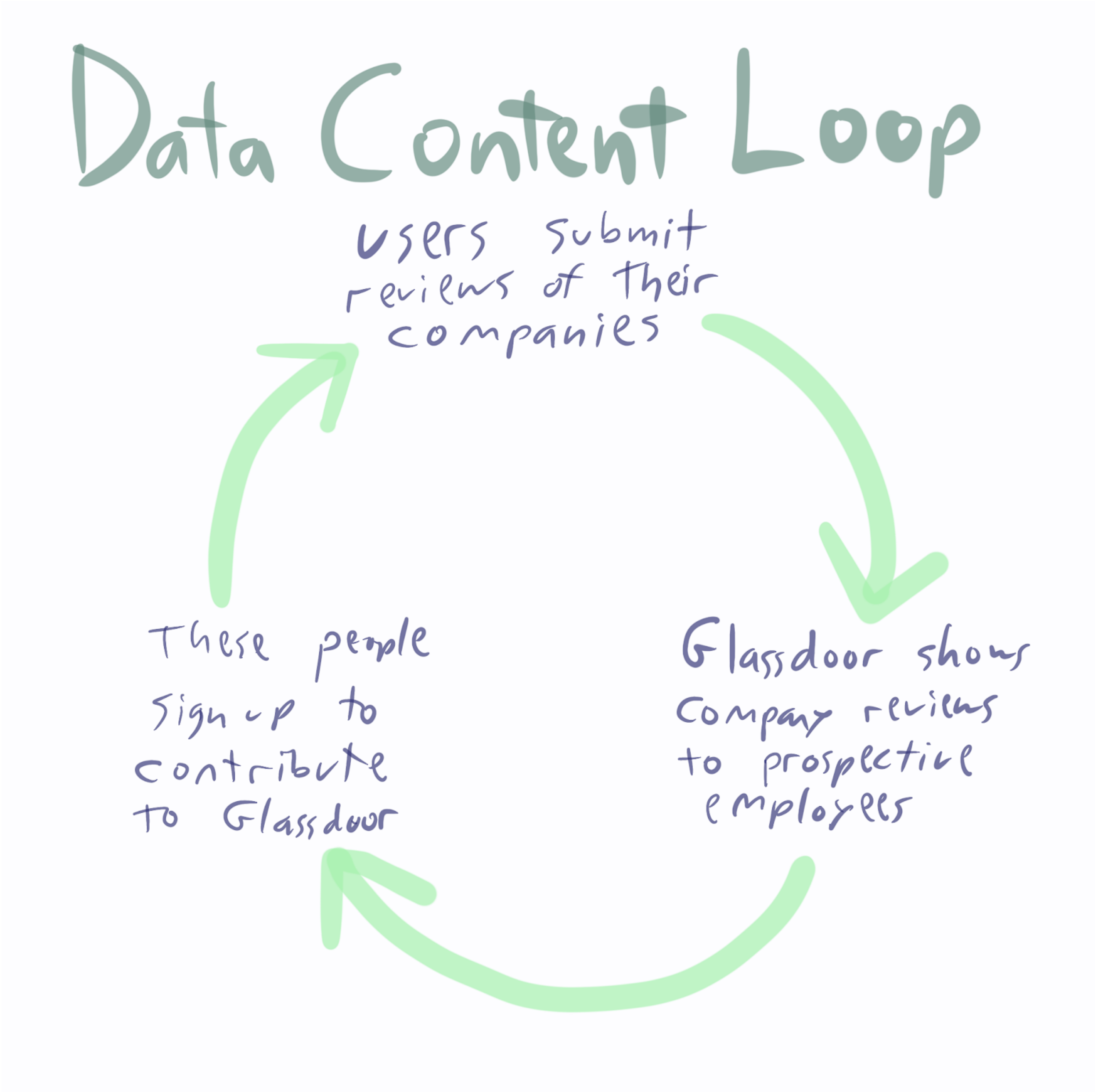
Barton's companies then use this content to own search for their market. This gives them a durable and strong source of free user acquisition, which enables them to own demand.

Power to the People: Disintermediating Industries with Data Content Loops

Barton career can be summed up by his mantra "Power to the People". His companies take power from the incumbents and give it to consumers. Instead of trying to hoard information, they are on the side of consumers and giving them more data transparency.

Glassdoor revealed how employees really felt about companies. Zillow shed light on what any house was worth. Expedia let people see the prices and availability of flights and hotels without talking to an agent. These were knowable things that people have always talked about with each other. There are few topics adults love gossiping about more than work, real estate, or travel. And few categories as core to their net worth.

Rich Barton took these whispered conversations and made them public for everyone to see. Afterwards, everyone wondered why they were ever private.



Part of the reason was that companies benefited from this credibility through obscurity. Real estate brokers have access to significantly more data about the specific houses and the general market via a set of data sources called the MLS. Historically, only brokers had access to MLS data, which gave them leverage over their customers and entrenched their importance as market makers. Similarly, lack of visibility into companies allowed bad ones to put on a good face until prospective employees had already joined. And only large companies could pay for data from compensation research providers, giving them advantage over the potential hires they negotiated with. Many incumbents are able to intermediate their markets and unfairly gain an edge from people's lack of knowledge. And it's scary to be the first to buck this trend on your own.

Plus it is logistically difficult. Job applicants are unlikely to know a current employee at companies they are considering joining. And even if they did, it's unlikely they could trust them to tell them the unvarnished truth. Employees have little incentive to say negative things about their employer, unless very close with the person asking.

This sparse commons is a classic case of natural market failure. While some incumbents take advantage of the information asymmetry, most benefit from a third party that will handle the logistics things like:

- Verifying legitimacy of information being shared
- Maintaining privacy of participants
- Aligning incentives to get people to participate in contributing to the commons
- Finding, ingesting, and curating third party data into the commons

Rich Barton's companies became public Schelling Points. They create common knowledge in their industries from information only middlemen had access to before, from public-but-hard to aggregate data, or from information collected from users themselves. These intermediaries, whether brokers or travel agents were misaligned. They controlled what information was shared with the public, but has an interest in withholding it. Instead of pushing increasingly more and higher quality information to the public, they maintained the status quo.

Creating common knowledge creates a network effect. All companies in Silicon Valley want to build network effects, but few have followed Barton's path despite its effectiveness. The more people use and trust Glassdoor, the more companies must take it seriously. And as users see more people contributing to Glassdoor, they can be more confident they'll stay anonymous when they add their review. There are virtuous loops in common knowledge.

Demand Rules Everything Around Me

Search

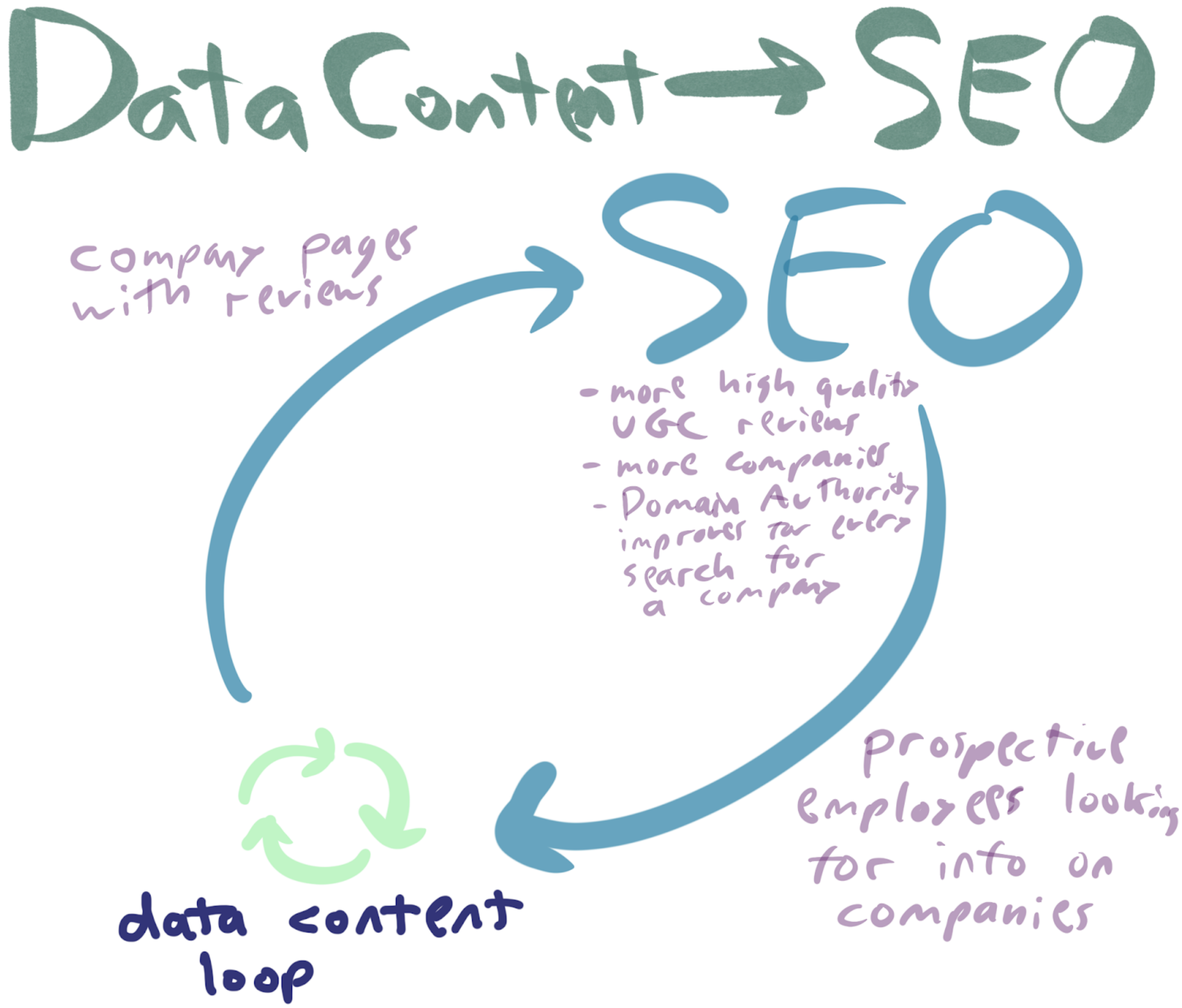
All of Rich Barton's companies have primarily used Search (and word of mouth) as their acquisition channel. Search is a great channel, since it can drive significant demand at low cost. Few companies can generate enough high quality web pages about their industries to fully capitalize on it, however.

The Data Content Loops of Barton's companies let them be the authoritative public source on a subject at scale and low cost. By having super relevant information about every hotel, home, or company someone might be interested in, Barton's companies become the ideal destination for consumers.

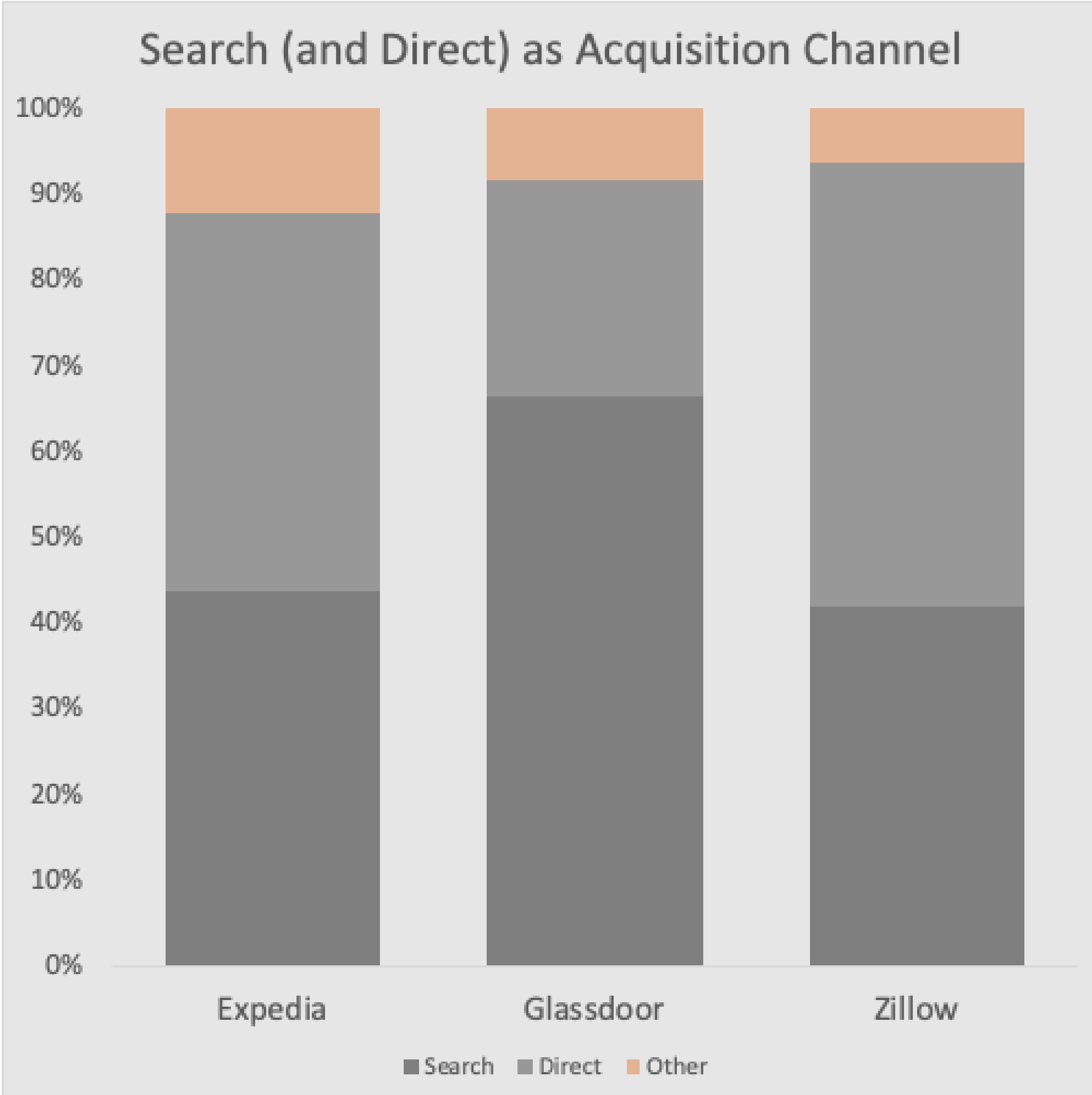
Over the years, he's refined this model. Expedia aggregated all the various hotel and travel options, but others had done that as well. However, Expedia and Booking.com were among the most aggressive to understand the importance of search. If you had the top spot in search, the next best thing was to acquire more sites so you owned the next top result, and so on. Use Travelocity, Orbitz, CheapTickets, or Hotels.com? All of them are owned by Expedia. And any site not owned by Expedia is probably owned by Booking.com. This approach, coupled with dominating the paid acquisition side as well, helped them dominate.

With Zillow and Glassdoor, Barton took this a step further.

Before Zillow and Glassdoor, if you wanted to look up information about a specific home or company, there wasn't a webpage for it. Barton's companies created the definitive page for each house and company. Using a combination of data from authoritative sources (like all the various MLS systems) and user-generated data, they created high quality content unique to each company or listing. Being among the first to do this let them do a huge SEO land grab, which has been hard to displace since.



If you look at the sources of traffic for Barton's companies, the vast majority of their traffic comes from search or direct. This makes their user acquisition far cheaper than any company that relies primarily on paid acquisition. It's this ability to get free acquisition at scale that made it possible to build companies in these otherwise difficult, low-frequency markets.



Becoming a Trusted Brand

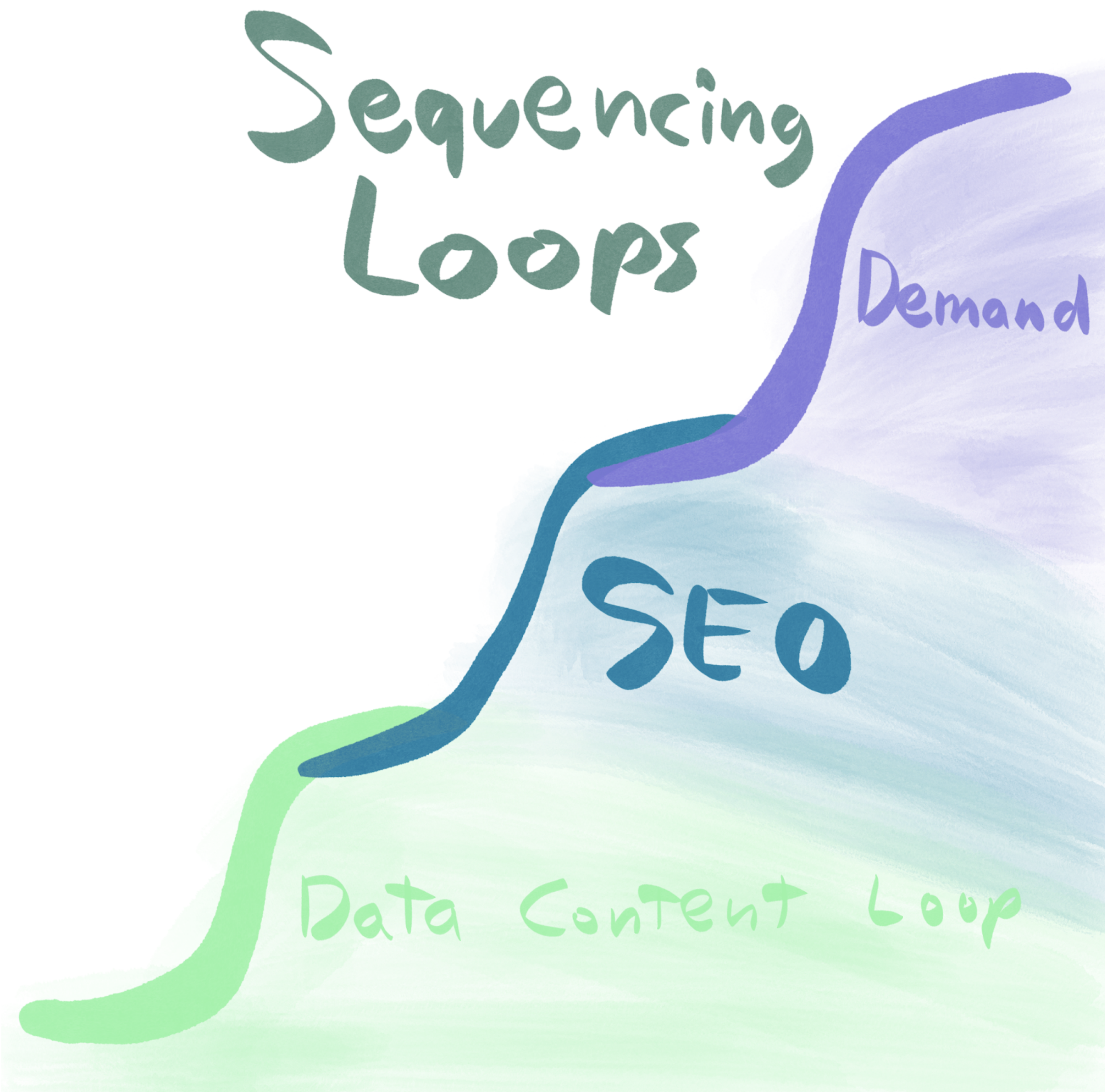
The ultimate purpose of the “Data Content Loops + SEO” strategy of Barton’s companies is to own the demand side of an industry. Expedia wants to be the first place you go when you travel. Glassdoor wants to be the destination when you’re thinking about companies to work for. And Zillow wants to be the place you go to look at real estate.

Barton’s companies take industries that are low frequency and use their Data Content Loops and SEO to acquire users for free and engage them more frequently. While most companies in real estate have super high customer acquisition costs, Zillow is able to get potential sellers even before they are ready to sell, so Zillow is already there when the sellers are ready.

Owning demand ultimately becomes its own compounding loop since becoming a trusted brand builds its own network effects. Consistently building this reputation increases people’s trust in them and makes them a go to destination.

Saturation and Sequencing

The Rich Barton playbook was particularly strong because it both understood how to find a wedge into a new market *and* how to transition that to a durable long term advantage at scale.



Data content loops are surprisingly underutilized by tech companies compared to how effective they've been. They have a natural invisible asymptote–and often diminishing returns on more data over time. Like Underutilized Fixed Assets for marketplaces, they can be used as kindling to catalyze demand and hit the minimum viable scope of more scalable demand loops.

Zillow as Case Study of the Barton Playbook

Zillow is a perfect example of the Barton Playbook. The data for estimating the price of houses had existed, and many brokers used the MLS systems to estimate it, but nobody had made that available to the masses.

Zillow changed that with their Zestimate.

By combining data from various MLS systems and other sources with their pricing algorithms, suddenly everyone could look up the value of their home. Even better, they could look up the value of their friends' homes. Within the first day of launching, Zillow had a million people trying to check out the Zestimate. That's an incredible feat that even today few have matched.

Envy is the best rocket fuel.

This data content loop lets them estimate the value of 100M+ houses. Driving anyone interested in the price of their home (or a home they're thinking of buying) to Zillow. And they continued to come back. Most users might not be selling their home, but they could all check the prices of their homes, and any home they saw. But the Zestimate didn't just drive users, it gave Zillow something far more durable.

The Zestimate became the kernel that Zillow used to create a webpage for every house. Zillow used its data content loop to become dominant at SEO for real estate. Try searching for your house on Google. I bet the first result is Zillow. And if not, it's certainly in the top 5.

Nobody had yet indexed all the homes in the US and brought them online. While sites like Apartments.com had started to do so for rentals, it wasn't until Zillow (and Trulia) that this was done for homes. There was fertile search real estate to grab and Zillow rushed out to claim it all using the Zestimate as its spearhead.

The Zestimate also had the network effect of becoming public common knowledge. It gave power to the people, and offered leverage against brokers. Armed with the Zestimate, sellers could push back on brokers who tried to pressure them to lower their prices. The Zestimate wasn't backed by anything so it wasn't secured, but it forced brokers to justify why the pricing they suggested deviated from the Zestimate. In many ways, Zillow became for homes what the Kelley Blue Book is for cars. And the more people used Zillow, the more powerful it became as an anchor in conversations with brokers. If you told your broker your friend told you the value of your house should be $1 million dollars, your broker would laugh it off. But if tens of millions of people are using Zillow and it tells you your house is worth $1 million dollars, the broker may still disagree but they have to take it seriously. Thus this data content loop has a demand side network effect that strengthens with scale.

Zillow used the advantages to own the demand side of real estate. Even before they decided to buy or sell, consumers went to Zillow. And when they were ready to become buyers or sellers, Zillow was there to help direct them to brokers.

Final Thoughts

One way the tech industry can be viewed, is a process by which we collectively push forward our understanding of industries and new business models.

Consumer will eventually be understood in many of the ways we've come to understand other business models like Enterprise and SaaS. Until then, founders like Barton with repeated successes are an early sign of some of the patterns and contours that can lead to repeatability.

While many of Barton's ideas–like owning demand–have become mainstream, his use of data content loops to catalyze demand for his companies is still underappreciated.

Core to building a scaled consumer business is the unpredictable path of bootstrapping initial demand. Data content loops are one of a few strategies we've seen work very well for this phase of companies. And as the world increasingly shifts from supply constrained to demand driven, strategies like data content loops that empower consumers are likely to continue to be very effective.

While the focus of this essay, data content loops and Power to the People, aren't the only beliefs Barton has advocated for.

Barton has been an early and loud proponent of the importance of:

1. Unconstraining talent in society
2. Raising the bar on ambition in companies

Both of which are very core beliefs among many of the people I respect the most. And also warrant much more discussion.

Aside: Ben Thompson has interview with Rich Barton. Which you should totally go read. And in general should go listen to Rich Barton whether he's giving a talk, being interviewed or on podcasts.

The End of History?

Of course, Zillow's story didn't end there. It's now the incumbent with a new startup fast on its heels. To understand how this happened and why Zillow is moving aggressively to match them, we have to look at the the strengths and weaknesses of the original Barton Playbook and how Opendoor and new competitors' map to them.