Why investors should be caring about sharing…

The swift rise in prominence of companies such as Airbnb and Uber emphasises the importance of identifying sectors and companies potentially at risk of similar disruptions.

Solange Le Jeune, ESG Analyst at Schroders, investigates…

Sharing businesses have emerged as the hot topic in the current wave of technology excitement. Start-ups compete to be the "Airbnb" of every industry imaginable. The impacts are already clear in several sectors. Airbnb itself advertises three times more beds than the world's largest hotel chain. Remarkably, despite the inroads they have made into established markets, those examples are still very young; Airbnb was founded just eight years ago, and Uber only launched in 2011. Identifying sectors vulnerable to similar disruptions and understanding incumbents' exposures and strategic responses is increasingly vital given the scale and speed with which change can unfold.

THE DISRUPTIVE IMPACT OF SHARING BUSINESSES IS ALREADY CLEAR

Heavy investment has provided new entrants with war chests for assaults on established industries. Coupled with short lead times, the commercial impacts can be substantial. ▶

UBER

US$335 billion

SHARING REVENUES ARE SET TO GROW AT 25% ANNUALLY OVER THE NEXT DECADE, TO REACH US$335 BILLION BY 2025, PWC ESTIMATES.

US$219 billion

THE TOTAL VALUE OF SHARING START-UP BUSINESSES HAD REACHED BY MID-2015 ACCORDING TO CREDIT SUISSE.

US$23 billion

SHARING BUSINESSES RECEIVE MORE VENTURE CAPITAL FUNDING THAN ANY OTHER CATEGORY, OVERTAKING SOCIAL MEDIA PLATFORMS IN RECENT YEARS. US$23 BILLION OF NEW CAPITAL HAS BEEN INVESTED IN THE SECTOR SINCE 2009 AND US$20 BILLION IN JUST THE LAST TWO YEARS.


TAXI

THE DRIVERS OF THIS GROWTH ARE SWELLING

These include access to communication technologies, increased trust and social acceptance of online exchanges and sharing, recognition of the existing inefficiencies and the savings those models can deliver to consumers, and flexible working patterns. These trends are strongest among younger generations, who represent the most active users of sharing businesses.

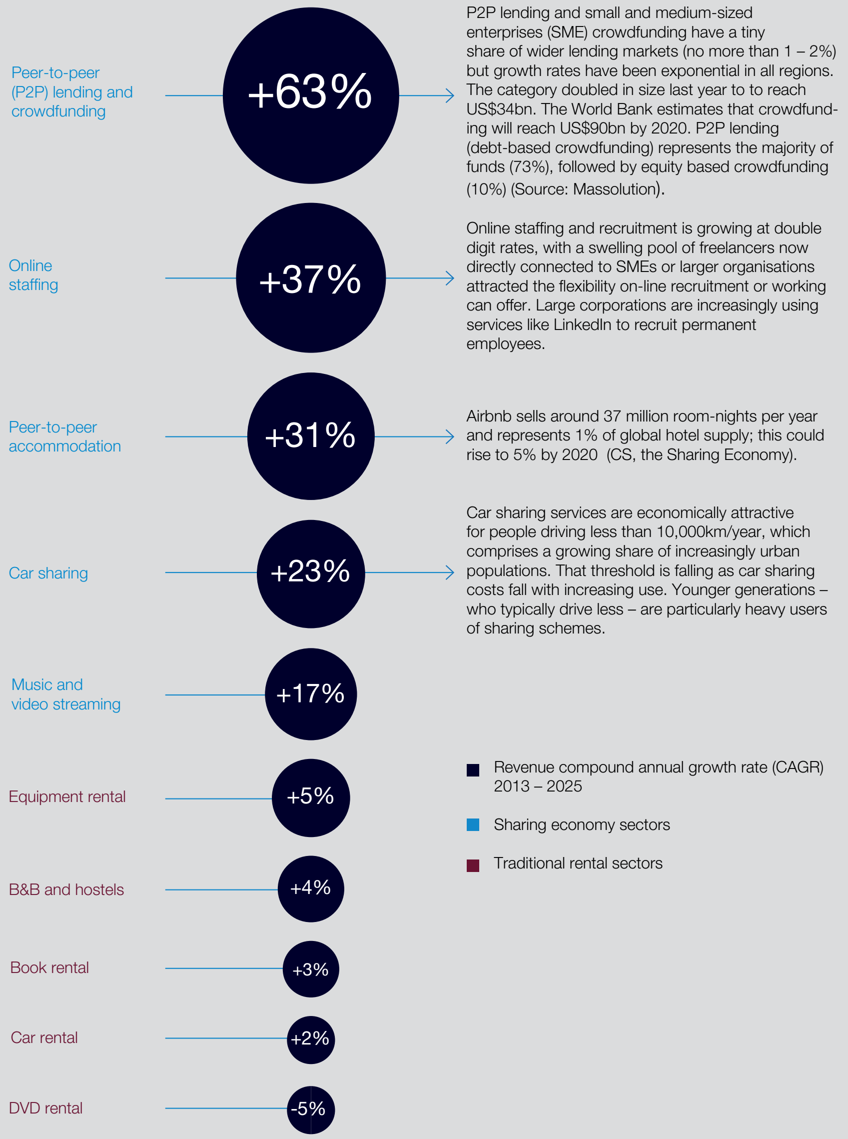
FEW OPPORTUNITIES TO INVEST IN THE THEME THROUGH PUBLIC EQUITY MARKETS

By being able to scale with limited capital, most sharing businesses operate outside public equity markets and provide little visibility into their finances or operations. Our main focus is therefore on the ability of incumbent companies to defend their competitive positions, and potentially ride the growth opportunities this presents if they are able to adapt quickly enough.

SHARING BUSINESSES POSE A THREAT TO LISTED COMPANIES IN EXPOSED SECTORS

In markets for which sharing businesses started earlier and have achieved greater scale, the impact on established incumbents is already becoming clear as it is set to redefine growth rates and profitability over the coming decade. For sectors such as hotels and transport, growth expectations used in valuations have already dropped. ▶

The sharing economy life cycle and sector growth rates



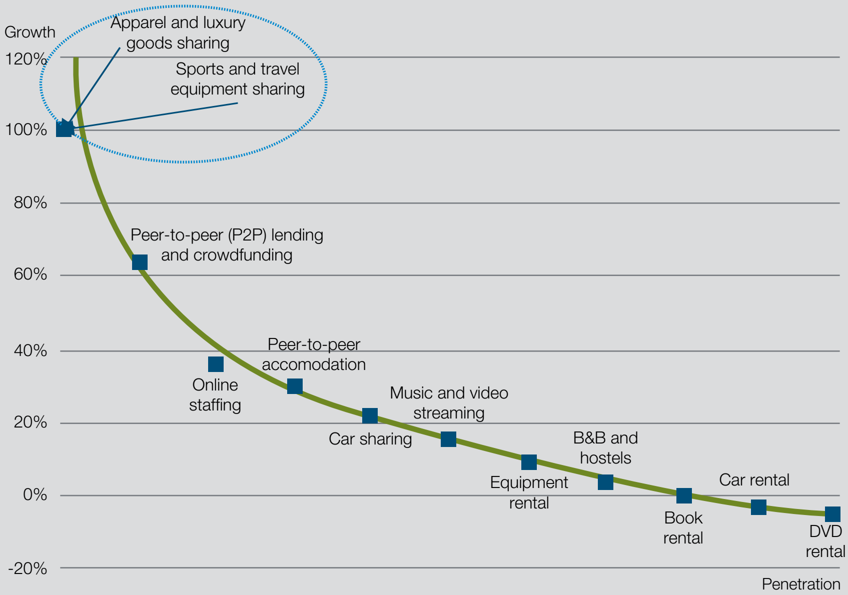
Source: http://www.pwc.co.uk/issues/megatrends/collisions/sharingeconomy/the-sharing-economy-sizing-the-revenue-opportunity.html, Schroders.

BARCLAYS HAS ESTIMATED THAT CAR SHARING, WHEN COMBINED WITH AUTONOMOUS DRIVING TECHNOLOGIES, COULD IN TIME LEAD TO A 40% DROP IN AUTO DEMAND AND A 60% FALL IN THE NUMBER OF CARS ON ROADS GLOBALLY.

AIRBNB – WHICH CURRENTLY REPRESENTS 1% OF GLOBAL LODGING SUPPLY – COULD GROW TO 5% OF THE GLOBAL MARKET BY 2020, CREDIT SUISSE ESTIMATES.

PEER-TO-PEER LENDING AND SMALL-AND-MEDIUM-ENTERPRISE CROWDFUNDING REMAIN TINY AS A MARKET SHARE (1-2% OF BANK LENDING) BUT GROWTH RATES HAVE BEEN EXPONENTIAL IN ALL REGIONS. GLOBAL CROWDFUNDING EXPERIENCED 167% GROWTH IN 2014 TO REACH US$16 BILLION AND THEN MORE THAN DOUBLED LAST YEAR TO REACH US$34 BILLION. THE WORLD BANK ESTIMATES THAT CROWDFUNDING WILL REACH US$90 BILLION BY 2020.

Maturity growth expectations of sharing industries



Source: Schroders, PWC as at 2016.

BUT MORE SECTORS MAY BE AT RISK

Where no major players have yet emerged due to a lower penetration or slower behavioural change, the effects are less obvious.

However, we expect that sharing models will appear in a much wider range of markets than has been seen to date, with commensurate impacts on incumbent industries.

Through examining large categories of spending on consumer durable goods with low utilisation rates (and for which physical sharing is straightforward), we have identified markets we think are likely to face disruption, including travel equipment and sports goods, luxury jewellery and accessories, apparel and footwear.

While there is no single solution, it is clear that incumbent companies in exposed industries will need to plan for significant changes.

The experience of lodging or transport (through Airbnb or Uber) demonstrates the speed with which change can unfold; and the inability of incumbents to adapt after that trend has become established. Sharing businesses are typically based on a kernel of innovation that allows them to undermine the economics of traditional peers. Airbnb uses the scale of an online marketplace to allow homeowners to generate a positive return on property, albeit lower (often) than hotel groups would demand for the same investment, and eliminates redundant administrative and service overheads its users do not require.

Uber similarly leverages an online market place, combined with advances in navigation technologies, to bring together self-employed drivers and passengers. Had incumbents recognised those business model opportunities, they might have more easily stemmed their growth by adapting their own strategies.

EVERY INDUSTRY WILL FACE DIFFERENT CHALLENGES

The priority for incumbent companies is to identify the ways in which new entrants could undermine traditional business models and to invest in exploiting those openings themselves. Thus, the sharing economy is similar to any other disruptive threat, made easier by the rising penetration and comfort with online exchanges.

For example, peer-to-peer insurer Lemonade is apparently looking at ways to leverage behavioural analytics and distributed ledgers (holding records with customers rather than centrally). Others, such as Heyguevara, Bought By Many and Friendsurance are building policy-pools that create small "captive insurers" for groups of people or friends, who are likely to try to keep claims low so that their payments are lower in subsequent years.

Many established insurers are developing proactive responses, for instance looking at ways to tailor risk analysis by making use of ubiquitous smartphone ownership to monitor driving behaviour and even patterns of leaving their homes empty.

THE EFFECTS ON INCUMBENT COMPANIES WILL VARY

The weak spots of traditional industries will vary but successful disruptors will deliver either better services, lower prices or both, to a material subset of customers. In principle, deep-pocketed incumbents with established brands and customer relationships should be in the driving seat. In practice, they can be held back by a strategic focus on established competitors and a resistance to change that might cannibalise their businesses.

Buying emerging competitors once they reach scale can work (Google's acquisition of YouTube cemented its position), but is typically costly and difficult to execute without a commitment to invest in the new business and integrate it with existing business lines (Microsoft's Skype purchase has been followed by a raft of similar telephony start-ups).

WE ARE MONITORING TRENDS AND EVALUATING RESPONSES

We are monitoring markets where conditions are ripe (but effects have yet to be felt) which helps us to be alert to upcoming disruptive threats. Equally importantly, our analysis and discussions with companies can help shed light on the changes they expect and the responses they are preparing, helping us to evaluate the likely winners and losers. d

dialogue For further information on this topic please visit cazenovecapital.com/caringsharing