The Economist Intelligence Unit

BREAKING DOWN BARRIERS AND ENTERING INDUSTRIES

PICKING THE NEXT INDUSTRIES TO BE DISRUPTED BY TECHNOLOGY

Written by the Economist Intelligence Unit

As most of us know, cheaper computers and widespread access to the Internet tore down traditional barriers to entering the retail sector. Online shopping, with its economies of scale and sharply reduced requirement for physical infrastructure, allowed new businesses to enter the retail industry and challenge the relevance of the high street and shopping centres, revolutionising consumer habits in the process.

Start-ups using technology to upend an established industry is an ongoing process of advancement and disruption, but is it possible to predict which established industry will be next? Victor Basta, the managing director of Magister Advisors, a boutique mergers and acquisitions consultancy, suggests looking to the businesses that have a completely different model of working in an established sector.

Mr Basta points to Wonga, the payday loans company. With an annual percentage rate (APR) of more than 4,000%, it is portrayed as preying on the financially vulnerable—those who run out of money before the end of the month and who turn to expensive providers of short-term loans. However, its success comes from fulfilling a need that traditional banking does not. "What's the last great analogue market?" he asks. "It's cash."

The founder of Wonga, Errol Damelin, rejected the traditional approach to applying for credit—talking to your bank—in favour of developing an algorithm that gathers up to 8,000 data points from a variety of sources, including social media accounts, and that returns a yes or no answer to the applicant within seconds, with no humans involved in the process at all.

WHEN IT PAYS TO BE DISRUPTIVE

Wonga is just one example of a business that has leveraged technology to be disruptive in the financial space. More broadly, payments are ripe for disruption, Mr Basta says—despite the fact that the process has already started. "Payments have been disrupted for a very long time—but not really.

"PayPal is the first company anyone thinks of—but PayPal is notoriously inefficient: it's not famous for innovation and it's late to mobile." Micropayments are an area that will further eat into the services now provided—unsatisfactorily—by banks.

Square, a technology start-up backed by Jack Dorsey, one of the founders of Twitter, is just one business providing a way for small retailers, from jumble sales to sole traders, to accept credit-card payments without spending a fortune acquiring credit-card terminals from the big providers.

Square gives merchants a card reader that plugs into a smartphone or tablet and swipes the purchaser's card for a flat fee of 2.75%, while the associated app provides analytics to the retailer.

Founded in 2009, Square now says that it is processing some US$10bn in transactions every year, and, crucially, makes it easy for both the retailer and the customer.

In payments, as in retail, successful disruption is the result of focusing on consumers and making things as frictionless as possible for them: from Amazon's one-click payment, making buying goods quick and easy, to Wonga providing easy to access emergency funds. "We're down to one-button payment," Mr Basta says. "The next step is zero-button payment. Payments will be truly disrupted when you can walk into Starbucks, grab a coffee and leave"—in other words, when you don't have to do anything at all to initiate the payment and it just happens.

SPOTTING THE BREAK IN THE CLOUD

Cloud computing will increasingly be at the heart of disruptive businesses. Companies can in effect rent their IT infrastructure, lowering the costs of entry for start-ups and allowing companies to scale IT more flexibly, according to growth and demand. Netflix, which started life by renting DVDs by post—in itself disrupting both cinemas and physical rental outlets—moved into the cloud to create its online movie streaming service, which in turn made it one of the forces disrupting the old "push" approach of broadcasting companies.

Netflix and competitors such as LoveFilm and iTunes have benefited from and driven the growth in video consumption. However, they could face disruption themselves as video consumption moves off the sofa: comScore, which provides insights based on metrics, noted that last year the mobile audience for video rose by 262%. At present, mobile video is held back by bandwidth constraints, but as 4G connectivity becomes more widespread, the appetite for watching video on the

move is set to rise sharply.

Mobile gaming too should get a big boost from 4G—and it is here that Mr Basta points to another industry that is ripe for tech-aided disruption. The companies that provide casual games to mobile device platforms and social networks such as Facebook have found monetising casual games very difficult. As consumers are generally reluctant to pay for games upfront, these companies have had to find other ways to monetise their products.

One proven way of getting gamers spending money is in-app purchases of items such as better weapons, power-ups and virtual money. Juniper Research predicted in February that gamers using tablets will spend more than US$3bn by 2016, up from the US$301m spent by gamers in 2012.

However, it is the advertising industry that Mr Basta has in his sights when it comes to mobile gaming. Here, new providers are moving into the space traditionally occupied by advertising companies to develop highly targeted in-game advertising. Berlin-based SponsorPay develops in-game advertising across platforms for publishers including Zynga and Ubisoft. Advertisers include huge brands such as Samsung and Coca-Cola. As 4G takes off, the problems of low bandwidth and slow connections that have held back the development of this kind of advertising "will be non-issues", Mr Basta says.

ENJOY IT WHILE IT LASTS

As technology continues to advance, the timeframe that established players have to enjoy industry dominance is shortening. Once upon a time, personal computers offered cheap, standardised hardware, throwing the mainframe business into disarray, but they have in turn faced disruption as PC sales decline and tablets and mobile devices take their place.

Now, even newer industries are being upended. Satellite navigation, for instance, has been disrupted by the growth of smartphones: the likes of TomTom and Garmin have seen their business eroded as map apps have become standard on the mobile phones we all carry with us, meaning there is no need for an extra, dedicated device.

Yesterday's disruptive businesses are today's big hitters—and should keep an eye on who is innovating underneath them.