In Focus: On-demand
The changing face of demand

In our latest ‘In Focus’ report we look at the changing way we shop, the impact it’s having on B2B buyers and what it means for services businesses of the future.

Whilst traditionally we may have regarded B2B firms as fundamentally different from their B2C counterparts, increasingly the two worlds are converging. If I look back at our services investments over the last 20 years, the expectations of customers are ever increasing: an easy to use platform, global access and total flexibility in consumption, all at the same time as better value for money.

In this report, Susie Stanford looks at how consumers see the world as increasingly rentable. As big-ticket items become unattainable or undesirable, platforms are helping to fill the void. She argues that this impact is now felt across services businesses – if someone expects total convenience in their personal purchasing decisions, why not at work?

Businesses themselves are moving towards on-demand models with how they operate. Cloud-based IT services, which are scalable, are an obvious example of where this has happened, but also in hiring, with more businesses recruiting specialist skills on an as-needed basis.

James Titmuss considers the impact this will have as businesses look to rent where they might have once invested in their own assets. It is beneficial to be asset-light, improving the agility of businesses and reducing the need for substantial capital investment upfront. However, it also means that margins must be justified in a different way.

We’ve seen that justification in the value add of convenience, often a tech platform, and superior customer service – offering buyers something bespoke they wouldn’t be able to deliver themselves. A good example of this is our investee, Carousel Logistics, a logistics provider that doesn’t own its entire fleet of trucks, ships and planes – but through its tech platform, Gateway, its clients can build bespoke supply chain solutions for their transportation needs across Europe. This renting model also allows Carousel, and in turn its clients, to flex up or flex down services as required.

This has been one of the most significant transformations we’ve seen in the services sector in recent years – the adoption of inventive tech platforms, like Gateway, that treat B2B buyers as consumers in how they shop for services. By prioritising the level of service rather than assets, businesses can also grow faster than their traditional asset-heavy competitors. From an investor’s viewpoint it is little wonder that businesses which are disrupting in often quite traditional markets and driving higher rates of acquisition and brand loyalty through their service offering, are incredibly attractive and exciting.

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Xavier Woodward
Investment team

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Consumption pattern convergence
How B2B is embracing on-demand

The meteoric rise of the on-demand consumer economy, in which we rent goods and services only when we need them rather than buying them outright, has wide-reaching implications. And now there is evidence that business to business (B2B) enterprises are moving in the same direction.

From office space and 3rd party warehouses, to gig economy employees and software as a service infrastructure, businesses seem to be eschewing asset purchases in favour of hiring resources as and when they are needed.

This shift comes from business buyers whose expectations have changed because of their experiences away from work. From taxi app Uber to premium clothing rental platform Rent The Runway, the sharing economy has transformed how consumers make purchases. Some forecasts see sharing economy transactions peaking at £140bn in the UK alone by 2025, compared to £13bn in 2016.

Pay-as-you-use models condition consumers to an asset light mindset. More and more people are subscribing to services such as car sharing company Zipcar or peer-to-peer platform Hiyacar, which enable them to hire a car for short periods just when they need one, rather than having the expense of a car sitting idle on a drive most of the time. Similarly, waste minimisation and utilisation factors are becoming a consumer consideration. Services such as HelloFresh which reduce wastage of bulk buying groceries, and the rise of food delivery services raise the question of the value of an underutilised kitchen for the 25% plus of single-person households in the US and UK.

For younger generations this chimes with the challenges of current economics. The mindset of buying big ticket assets has changed as the age of peak home buying has shifted from 25 to 45. Millennials have responded by revising their expectations; a quarter of millennials surveyed say that they aren’t concerned with a home of their own and would be content to rent for the rest of their lives.

With a declining focus on ownership and a shift towards the value and convenience of on-demand services, it is inevitable these individuals would look for same value and convenience at work.

All the more so given the challenges now facing many businesses. Under pressure to innovate at pace, businesses must be more agile than ever, scaling their activities up or down rapidly as they trial innovation or respond to changing market conditions.
A leading European logistics specialist, offering a portfolio of delivery solutions.

Carousel Logistics is an outsourced logistics provider that delivers technology-led solutions specifically for high-performing industries. The company’s easy-to-integrate service and technology platform connects businesses with Carousel’s pan-European network to ensure the smooth flow of parts and products. Our investment is supporting Carousel as it expands its offering of agile solutions, grows its European network and delivers on its buy and build strategy. Since our investment in 2013 Carousel has acquired AYS Logistics, enabling it to offer time-critical and express deliveries. A merger in 2017, with Germany-based LSi Logistik, then further enhanced its pan-European distribution network.

“We are committed to delivering solutions that help our clients add value right at the point they interact with their customers. Through continued investment in our network and technology we have built a solid foundation for our ambitious growth strategy and for enhancing our service portfolio, supporting leading brands in a range of service-focused industries.”

Graham Martin
European CEO

For larger businesses, on-demand provides a means to respond quickly to such competition, accelerating their ability to flex and pivot and dispensing with the need to rethink capital allocation. Expect many more B2B enterprises to move in this way.

This imperative is an important driver for the on-demand model; businesses are no longer held back by the need to acquire or dispose of assets as they grow, retreat or pivot, if they can simply rent them as they’re required.

The technology which underpins these shifts in the consumer space make it just as straightforward for business buyers to operate in this way. The same online platform models disintermediating the business-to-consumer (B2C) market in sectors such as transport, property and finance work equally well in the B2B space.

So it is that when looking at costs across both the P&L and the balance sheet, businesses are moving away from fixed costs and asset ownership towards an on-demand model.

The global cloud services market grew by almost 30% last year alone.

Cloud computing has been an important technical component enabling businesses to acquire every layer of their IT stack “as-a-service”, renting software, infrastructure and platform capacity as they need it. This time last year the global cloud services market had grown by almost 30% compared to the previous year1.

Nevertheless, in an age of fast-moving disruption and transformation, on-demand will continue to be attractive to businesses of all shapes and sizes. For start-ups and fast-growing smaller businesses, it offers a way to scale up rapidly without the need for significant capital investment. For larger businesses, on-demand provides a means to respond quickly to such competition, accelerating their ability to flex and pivot and dispensing with the need to rethink capital allocation. Expect many more B2B enterprises to move in this way.

Businesses are also beginning to hire people on-demand. The growth of self-employment and freelancing in flexible labour markets such as the UK and the US represents a new model for employment, in which companies are able to hire staff when they need them as demand requires. Platforms such as Upwork and PeoplePerHour facilitate this need throughout the economy, while curated platforms offer access to specialist skills. PeoplePerHour predicts half the UK’s workforce will be in self-employment by 2020.

This is not to suggest the shift to on-demand is without challenges for businesses. For example it requires new types of procurement and resource management skills, as businesses seek to ensure they have access to the right assets at the right time. It can also be costly – the downside of flexibility with resources such as property is often there is a premium to pay for it. Businesses will need to decide whether the value of being able to flex their operations justifies the additional expense implications of on-demand services.

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Driving value with an asset-light B2B model

By James Titmuss
Investment team

The model for B2B enterprise is changing rapidly. Where once they signed long-term contracts, customers are now much more likely to want easy-on/easy-off arrangements.

This shift to on-demand operations, now evident across a broad range of industries, has profound implications for the way B2B businesses manage their assets and plan resourcing.

The move of clients towards on-demand purchasing and procurement means that firms have limited visibility about long-term demand, making it difficult to work out how much to invest upfront.

For all but the very largest businesses, the capital investment required to acquire substantial assets doesn’t stack up without the long-term commitments from clients to pay for their use.

Powerful technology that delivers an innovative service is imperative for asset-light B2B businesses.

With firms therefore seeking an asset-light balance sheet, the smartest B2B enterprises are shifting to an on-demand model themselves, sourcing the assets required by their customers as and when they are requested, rather than owning them outright, ready for hire.

However, this requires a rethink of the value proposition. B2B businesses operating in this way must identify the difficult parts of the supply chain where they can justify their margin; where an asset is easily sourced, their customers will simply do this for themselves.

In the property sector, for example, many businesses won’t need a skilled intermediary to help them negotiate a 10-year standard lease in a big city. Instead, the value play for an asset-light B2B must be more specialised – for example finding short-term accommodation very quickly or in a range of global locations. Offering flexibility in something innovative is key. In 2017 co-working space leases accounted for 75% of all leases, up from 2% in the previous year.

The added value should also include a platform on which customers can execute these demands. Powerful technology that delivers an innovative service is imperative for asset-light B2B businesses.

Only 10% of B2B companies describe digital as their top investment priority...\n
...but more B2B firms need to invest in digital platforms to secure these gains...

...and capture the prize as the value proposition shifts in an on-demand world

The forecast revenues for GE’s Predix platform by 2020 following its digital makeover three years ago...

The compound annual growth rate of shareholder returns at the leading digital B2B businesses over a five-year period, compared to 10.3% the rest of their peer group...

...against those from those traditional models...
Services – In Focus: On-demand

Asset-light B2B businesses recognise their customers’ need to scale up and down with agility – and their own need to do so in parallel. It’s a model that offers huge potential for fast-paced growth.

The asset-light model also reflects a more efficient allocation of capital. For the very largest businesses, with the lowest cost of capital, building an asset-heavy balance sheet may be a sustainable option. But for most other participants in the market, it makes more sense to drive value from exceptional service, earning more attractive return on equity in the process.

In a fast-moving marketplace, in which every industry faces the threat of disruption from nimble new entrants or rivals from adjacent sectors, asset-light B2B businesses recognise their customers’ need to scale up and down with agility – and their own need to do so in parallel. It’s a model that offers huge potential for fast-paced growth.

Former Livingbridge investee company, Nexus, is a good example of these ideas in practice. Nexus is the UK’s largest corporate vehicle rental management provider, offering its clients more than 500,000 vehicles in over 2,000 locations – including specialist vehicles ranging from electric cars to HGVs. Crucially, the business operates as an intermediary so has not had to make significant investments in a fleet of vehicles itself, but adds value with a highly automated and sophisticated online rental booking and management platform, IRIS, that gives customers access to a huge range of vehicles from many suppliers.

Carousel Logistics, a current Livingbridge investee, provides another example of how technology sits at the heart of the asset-light B2B proposition. Via its Gateway, Carousel builds bespoke logistics and supply chain solutions for its customers, spanning services including procurement, warehousing and distribution. The company then builds packages of best-in-class services from across the logistics sector to meet its customers’ needs.

For investors, businesses able to demonstrate a track record of operating successfully in this way make attractive propositions. To do so in parallel. It’s a model that offers huge potential for fast-paced growth.

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