

# Spotlight on investing in disruptive subscription-based tech companies



Scentbird is one of many subscription-based firms that is proving popular among investors

**Subscription models are an exciting and fast-growing sub-sector in the booming e-commerce market, writes TMT Investments' Alexander Selegenev.**

Its players offer an alternative and disruptive way of accessing and selling into markets that are already huge and well established.

Subscriptions provide regular revenues that are easier to forecast and smooth out seasonality in sales. Customers who 'rent' or 'pay as you go' rather than own, benefit from time savings, convenience and the opportunity to receive a variety of goods within product range, often at a lower overall cost.

With a lower fixed cost base and huge amounts of data on customers' preferences, such companies can do very well, very quickly.

The sale of razor subscription company Dollar Shave Club to Unilever in July for \$1bn is a case in point. This is a classic example of a major corporate acquiring a disrupter in order to blend in revenue streams that would otherwise have been lost, or could have eaten into the acquirer's competitive position.

We see exceptional technological and leadership talent in subscription-based companies in the US, where we make most of our investments via our AIM-listed investment company.

A cash-strapped younger generation is not keen on spending big on expensive, one-off items. One of our most successful investments to date, Scentbird, delivers a smaller version of a top fragrance for \$14.95 per month from a choice of over 450 famous scents, a fraction of the cost of a large bottle.

Likewise, VineBox delivers a box of three separate tasting vials of fine wine for \$35.90 a month, playing to the old adage of 'try before you buy'.

By tapping huge retail needs through lower price entry points, subscription companies can benefit out of proportion to traditional retail models. The most successful subscription companies are built from and through analysing realms of customer data.

This gives them a lower cost base and a huge comparative advantage against bricks and mortar stores that are still playing catch up.

*Alexander Selegenev is an executive director at TMT Investments*

## **Bull Points**

- Subscription-based companies are target acquisitions for major corporations seeking to buy retail disrupters
- Steady monthly revenues make forecasting easier and smooth out seasonality

## **Bear Points**

- Repetitive products can become boring and commoditised

- Lifetime value per customer can be harder to expand

## (IA) Specialist: Over three years

	3yr % chg	Rank	Vol monthly	Fund size (£m)	Morningstar rating™
<b>Top 5</b>					
<b>GS India Equity Portfolio</b>	155.13	1	6.46	1,394.71	★★★★★
<b>Jupiter India</b>	150.11	2	6.63	521.98	★★★
<b>Jupiter JGF India Select</b>	149.00	3	6.83	221.31	★★★★
<b>Invesco India Equity</b>	134.89	4	6.05	218.70	★★★★
<b>BGF India D2</b>	133.34	5	6.21	399.62	★★★
<b>Bottom 5</b>					
<b>PIMCO GIS Commodity Real Ret</b>	-20.23	171		298.60	
<b>MFS Meridian Latin American Eq</b>	-20.26	172	6.19	22.45	
<b>Marlborough ETF Commodity</b>	-25.34	173	3.64	10.47	
<b>Artemis Global Energy</b>	-29.86	174	6.27	36.20	★★
<b>Junior Oils</b>	-48.34	175	8.23	10.74	★
<b>SECTOR AVERAGE</b>	<b>27.38</b>		<b>4.26</b>	<b>486.44</b>	

Performances calculated bid to bid, net income re-invested, GBP to 21/08/16. Source: © 2016 Morningstar.



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