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Is The Music Coming To An End For Unicorn IPOs?

It is not good enough today to have a great product and great service—the real challenge is being able to manage a direct relationship with customers and control distribution channels.

Amazon, Uber, Deliveroo and other new gig economy platforms are stepping over entire industries to control distribution channels and, more importantly, the customer relationship.

These new convenience economy companies have not only met the needs of customers, they have created a market and an economic value for convenience that didn't previously exist. However, in most cases, despite unprecedented funding, these tech behemoths have not yet figured out how to make a profit doing it, and perhaps therein lies the opportunity.

Done right, better technology equals better financial performance. Controlling the customer relationship requires technology and a clear route to market—you must meet customers where they are, and today they are everywhere.

Proprietary technology coupled with great operations and direct distribution are the missing links. This is perhaps any company's most valuable asset in the new global economy.

A wave of private-equity fueled, third-party technology companies have opportunistically integrated themselves in brick-and-mortar industries, but they are arguably operating with fundamentally flawed, longer-term business economics. The prioritization of user growth and market share over profitability has created falsely-priced markets where tech companies buy custom through artificial pricing.

It remains to be seen if these unicorns will ever turn a profit. It should perhaps be perplexing that the more revenue many of these companies generate, the more money they lose.

The IPO window and liquidity for these unicorns is relatively small in terms of duration and economic cycle. Private equity investment predicated on exiting at higher share valuation rather than profitability has created an anomalistic market place.

The ability to raise money in private markets has diminished the requirement for public sector funding to a point where pre-IPO valuations are so high that virtually every tech IPO this year is a unicorn or unicorn plus, and almost all showing no road to profitability.

Amazon is often cited as a company that was not profitable for many years and succeeded. However, Amazon had the ability to be profitable very early but chose reinvestment and growth over short-term profitability.

The recent LYFT IPO is a sobering example with its stock price dropping more than 20% after its IPO and investors filing lawsuits against the company. This has dampened the tech

IPO, signaling that the music may soon come to an end for unicorn IPOs.

The implications of this recent tech gold rush are profound to the industries where unicorns have been unwelcome interlopers. With shrinking paths to exit, private equity funding will be choked, forcing aggressive consolidation and increased concentration in the perceived winners. It is already happening globally and at increased rates, particularly in markets not hampered by anti-trust consumer protections.

Uber has conceded many Asian markets to its local rivals in exchange for stock. Delivery Hero is hoovering up food aggregators and delivery companies around the globe. The choices are becoming narrow—go public, merge or go out of business.

Public markets will demand profitability, putting pressure on to increase prices, affecting industry merchants and consumers. This may arguably break consumers' addiction to subsidized pricing and return industries to compete on a more level playing field. It may, in many cases, create pricing that is considerably higher than pre-disruption pricing and create a new and more democratic marketplace for the convenience economy.

New business models are also arising. We need look no further than Abu Dhabi to see a logistics hub being directly integrated into Reem Mall for retailers to seamlessly fulfill online orders from the mall itself. Unicorns will also shape shift to solve profitability problems. In a bold move, Deliveroo for example, has started to operate its own restaurant brands in London—it is now competing with its own restaurant merchant customers.

More dynamic, traditional market players have already started to morph to compete in the new convenience marketplace (see Panera, Marriott, Daimler-BMW, Starbucks, Freedom Pizza).

In future, the convenience-value spread and economics will better support investment in proprietary platforms, technology and distribution, giving traditional market participants more power to compete with industry interlopers and re-prioritizing experience and convenience to delight consumers.

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