

8 Hot Industries for Start-Ups

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Driven primarily by a shift toward providing services online, these eight industries present excellent opportunities for start-ups.

The online retail marketplace is one of the fastest-growing industries in the United States

Fragmented industries with a low level of capital intensity often present excellent opportunities for start-ups. During the past decade, the key trend creating the majority of these opportunities has been the shift toward providing services online. As internet traffic has grown at an exponential rate and internet connection speeds have increased markedly, businesses from all sectors of the economy have shifted operations online to take advantage of this growth.

Opportunities for start-ups are most prevalent in retail and service industries. E-commerce, traditionally provided by large technologically savvy enterprises, is now in the purview of small operators with little to no technological expertise. Much of the technological expertise traditionally needed to run an online business is no longer necessary due to the prevalence of third-party firms that develop websites and provide e-commerce platforms. At the same time, the cost of internet storage has never been cheaper. All of these factors have made starting an online business easier than ever before.

IBISWorld has identified the following eight industries with low barriers to entry, a high level of technological change and strong revenue growth that present prime opportunities for start-ups

in 2013. As participation in these industries expands, growing businesses are likely to seek out loans to grow their operations more quickly amid burgeoning demand.

Social Network Game Development

The Social Network Game Development industry has grown an astounding 184.3% per year on average during the past five years, driven by surging internet traffic and the widespread prominence of social networks, particularly Facebook. Moreover, as broadband-enabled smartphones and tablets have proliferated throughout the country, consumers have increasingly been able to access their social networks anywhere, at any time. Indeed, according to a report from research firm Nielsen, consumers spend 20.0% of their total time online using social networks on personal computers and 30.0% of their time online visiting social networks on broadband-enabled mobile devices.

Social networks, and the technology that accompanies them, have placed gaming within reach for the average computer user. As a result, revenue is anticipated to grow 31.9% to \$6.0 billion in 2013. Rising demand for social network-based games creates opportunities for potential industry

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entrants. Additionally, widely available industry associations like the Entertainment Software Association can help new entrants by providing market research to develop more highly demand products.

Online Shoe Sales

The Online Shoe Sales industry has benefited from the increasing trend of consumers purchasing goods and services online. Industry revenue has grown at a robust 16.2% five-year annualized rate to \$8.9 billion in 2013. Every year, more than 100 million Americans purchase goods from the online retail marketplace, one of the fastest-growing industries in the United States. Moreover, a survey by Nielsen indicates clothing, accessories and shoes are the second-largest category of items (after books) that consumers purchase online. With such rapidly increasing demand, traditional brick-and-mortar retailers have an opportunity to enter the online realm and recapture sales taken by retailers that operate exclusively online.

Although new industry entrants face competition from well-established incumbents, this threat to success is partially mitigated by the industry's fragmented nature; in 2013, the

industry's two-largest players, Amazon.com and Foot Locker, control less than 16.0% of the market. Successful new entrants will need to differentiate themselves by providing a unique product line and implementing a strategy to attract traffic to their website. As more traditional retailers migrate to the internet, IBISWorld anticipates that the number of industry participants will increase at an annualized rate of 4.0% during the next five years.

TV & Home Theater Installation Services

The TV and Home Theater Installation Services industry is highly fragmented and has a very low level of capital intensity, affording firms with transportation and the proper tools the opportunity to enter the industry. According to the Consumer Electronics Association, about 98.0% of today's US households own at least one TV and 84.0% have a DVD player or recorder. In addition, according to the Custom Electronic Design & Installation Association, 25.0% of Americans have a home theater. These trends have helped the industry expand rapidly, with industry revenue growing an annualized 4.1% to \$12.2 billion over the five years to 2013. Notably, to succeed, start-ups

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Industry	2008-2013 Compound Annual	
	2013 Revenue Growth (%)	Growth Rate (%)
Social Network Game Development	31.9	184.3
Online Shoe Sales	14.5	16.2
TV & Home Theater Installation Services	4.1	0.5
Virtual Data Rooms	16.0	15.8
Travel Agencies	6.1	3.9
Translation Services	3.4	2.4
IT Security Consulting	8.8	9.8
Digital Forensic Services	11.2	11.9

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must keep up with the rapid pace of technology in the industry.

Virtual Data Rooms

The Virtual Data Rooms (VDR) industry is growing very quickly, with industry revenue expected to reach \$728.4 million in 2013, a 16.0% increase from 2012 and an annualized growth rate of 15.8% since 2008. Driving this growth has been the economy-wide transition toward providing services online. In particular, the proliferation of access-limited document sharing infrastructures – and programmers in the field – has enabled this industry to flourish without requiring huge investments. The time and money savings this industry offers have made VDRs enormously valuable to investors.

Furthermore, VDRs provide the benefit of not needing a physical space to show documents to potential investors. With low barriers to entry, IBISWorld expects this industry to expand as the number of enterprises increases at an annualized rate of 16.5% in the five years to 2008. Such growth means potential entrants will be searching out investors for business loans at an increasingly higher rate over the next five years. Consequently, industry revenue is forecast to expand at an annualized rate of 14.2% over the period.

Travel Agencies

After a disappointing 2009, when revenue declined 13.5% and brick-and-mortar travel agencies lost sales to internet businesses, the Travel Agencies industry began its recovery in 2010. Despite the losses incurred, IBISWorld estimates revenue grew at an average annual rate of 3.9% over the five years to 2013, with revenue expected to grow 6.1% to \$20.7 billion in 2013 alone. The era of storefront travel agencies is entering a long-term decline and is being replaced by online services, which offer a relatively high-

profit, low-cost way to handle transactions. This segment of the industry has grown significantly and will likely continue to display strong growth during the next five years. Major operators will continue to acquire global, regional and local websites to improve their revenue and profit and capture a larger share of this growing area. Furthermore, many firms will enter the industry, increasing demand for loans associated with data storage and labor requirements. From 2013 to 2018, industry revenue is forecast to increase at an annualized rate of 2.2% to \$23.0 billion.

Translation Services

The Translation Services industry has benefited from globalization and an increasing number of nonnative English speakers in the United States. Industry revenue has increased at an annualized rate of 2.4% to \$3.2 billion in the five years to 2013. The industry has grown as companies looked to cash in on an increasingly global marketplace. In particular, the internet has been instrumental in increasing demand for translators because businesses expanding into new countries often require services to adapt websites and marketing materials to the new region. The process ensures more effective communications with customers between countries and across cultures.

Technology has also helped automate some of the process, improving the speed and accuracy of translators; however, translation services remain relatively labor intensive. Some competition exists through programs and free internet websites, but these systems often give translations that do not provide a cultural context. In 2013, IBISWorld expects industry revenue to increase 3.4%.

IT Security Consulting

Operators in the IT Security Consulting industry have benefited from the

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increasing adoption of e-commerce, growth in mobile internet access and a number of high-profile data breaches. In the five years to 2013, IBISWorld estimates that revenue for the IT Security Consulting industry increased at an annualized rate of 9.8% to \$5.3 billion. During this time, companies such as Sony, Zappos and LinkedIn have been victims of cyber attacks and have thrust IT security into the spotlight. This factor has contributed to industry growth over the past five years, including expected revenue growth of 8.8% in 2013.

During the next five years, IBISWorld projects that private investment in computers and software will increase 6.7% per year on average as more services are conducted online. Business investment in computers and software, along with the continued adoption of mobile and broadband internet connections will also contribute to industry growth.

Digital Forensic Services

In the five years to 2013, IBISWorld estimates that revenue for the Digital Forensic Services industry increased at an annualized rate of 11.9% to \$976.2 million. The industry has benefited from growth in the number of mobile internet connections and a rise in the percentage of households with at least one computer. Consumers are spending more of their time online, causing the amount of electronically stored information (ESI) to rise exponentially. An increasing amount of ESI is expected to contribute to steady revenue growth of 11.2% in 2013.

Over the next five years, the industry will continue to benefit from the rising amount of ESI, which will boost potential demand for services. Furthermore, barriers to entry into the industry are low. While there are few prohibitive governmental, licensing or regulatory barriers to starting a digital forensic services firm, capital intensity and the rate of technological change are high, which means prospective firms will have to secure substantial capital to enter successfully. In addition to high capital requirements, industry participants will continue to be challenged by the expansion of cloud computing, which allows information to be manipulated, stored and processed from multiple computers. Although cloud-computing penetration is expected to constrain industry growth slightly, revenue is forecast to continue its rapid climb at an annualized rate of 9.1% over the next five years.

As these fragmented industries continue to grow, opportunities for start-ups will abound, particularly in the online realm. Firms with a unique value proposition that shift operations online will benefit from increased access to consumers via online platforms. To maintain a competitive position, though, start-ups will have to keep pace with the high level of technological change that has transformed their respective industries. Additionally, access to capital via investments or loans will play a critical role in determining the speed at which firms can grow the scale and scope of their operations.

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