

# New Business Models (revisited)

I was reading the other day about the how some of the new business models which are growing around the internet and it led me to think about the comparison with changes in the EO services sector. In a very general way, we are seeing low-cost businesses competing with full-priced, higher-performance ones and we are seeing individuals and businesses using existing, paid-for assets to supply their customers at marginal cost.

In two sectors this is very marked.

- The existing hotel business is being challenged by internet sites like Airbnb which allow anyone to make some money out of their spare room. Hence an asset, in this case the spare room, which has no direct cost is competing with hotels with a much higher cost base driven by legislation on insurance, health and safety etc.
- The taxi business is being challenged by Uber, Lyft and other sites which allow anyone to use their own car to pick up and depose passengers. Whilst there are some obligations, the individual does not have the legacy costs of a taxi business such as their licences or their invested time in "the knowledge".

The likes of Uber, Airbnb are allowing individuals the freedom to make some money in their spare time using assets which they already own ie a house, a lease on an apartment, a car but this is threatening traditional business models. The story I read was about a small hotel, just outside a large town, that has seen its business drop by 35% in the last two years; they consider that this drop is due to Airbnb and similar sites which are creating more lodging in the town and hence taking away some of the marginal business that the small hotel gains. The hotel also uses airbnb but of course room rates are driven down. All good for the consumer of course.

The hotel has to adapt its business model but with fixed costs to cover they can only go so far unlike the house or car owner who already owns their asset and whose room rate is set essentially at marginal cost. But the playing field is not level because each of the professional businesses whether it be hotel or taxi have regulatory costs that the individual does not have as they are required to hold licenses to operate and to meet safety and insurance conditions. Uber drivers are obliged to hold adequate insurance but they are not licensed in the same way that traditional taxis are. Indeed, it is various regulatory measures from passing the knowledge in London to buying a license from the local authority which created barriers to entry that the new business entrants are breaking down.

In both cases, the competition is somewhat unfair but is good for the consumer as, in accordance with economic theory, prices are driven down towards the marginal cost. But the social cost may be high as the older businesses are forced to adapt or even fail since they cannot cover their legacy costs. Change will take time and transition away from the unfair situation should be ordered rather than purely "let the market decide".

We are seeing something similar in the EO services market where, over the last 12 months especially have seen significant changes with three major trends:

- The move to much higher resolution in the commercial market with the opening up of (non) restrictions from US suppliers down to 25cm
- The advent of new business models bringing low-cost systems to the market offering what is still high resolution data at around 1m.
- The launch of Sentinels with a free and open data policy reducing data costs for moderate and low resolution data.

However, the market for hotels & taxis is predominantly a consumer market where cost is a first consideration and service, quality etc are secondary, whereas most EO services are sold to business or government customers where price is often a secondary consideration after the quality and reliability of the service. This is not to say that price is unimportant but that a professional customer will be concerned with the "specification" where most consumers are more taken with the "features". This is a significant difference.

I think that in the consumer market, the wave cannot be stopped and that the drive to find cheaper and more democratic business models (Uber, Airbnb) is unstoppable. The consumer will benefit from lower prices for equivalent service and, through smart legislation to ensure a level playing field with more traditional businesses, we consumers shall get wider choice and better service. Overall, the market will be controlled by consumer protection laws.

In the business market the situation is different and is one reason why we are working to introduce a certification scheme. Rather than a legislative basis we would prefer an industry-led scheme in which the customer has the choice, allowing EO service providers to present themselves better to professional customers. Nevertheless, this should not create large barriers for new companies to enter the market and hence we consider it important to keep the costs of certification as low as possible.