Pricing power in the Value Chain

DigitalGlobe's decision not to sell its data to clients which are offering map products based on that data for free makes perfect sense; even if the initial market reaction (a sharp fall in the share price) seemed to the contrary. However, logical the move towards free and open data may be, it has a strong impact on the market for satellite data. In our "Geese and Golden Eggs" report in 2013 we stated that commercial operators would be affected by the decision to offer Sentinel data free of charge. We also noted the commoditisation of satellite data as more suppliers enter the market and that these two forces would be driving the cost of data down.

This is still happening and the threshold point at which value can be obtained from selling data is being forced down from 5m to lower today. The limit of free data coming from government satellites remains at around 5m to 10m driven by the Sentinel 2 performance but the arrival of the new businesses like Skybox, Planetlabs and Urthercast has put more commercial pressure on data prices and pushes the price of imagery down at lower resolutions ie around the 1m mark.

But the free and open philosophy does not just stop at satellite imagery and Google and others offer many map and geospatial products for free based on other open sources. The Internet abounds with free products as new companies seek to develop new business models and find new sources of revenue; open sources are everywhere. This is a very disruptive market and I have previously noted the similarity between the forces on the satellite data market and on taxi services (from Uber) and hotels (from Airbnb).

Hence, whilst DigitalGlobe is able to offer a premium product without much competition, they have two options; accept a premium price as the price for allowing an open license on the data, or restrict sales. If they choose the former then customers who do not want an open license will demand a lower price in compensation hence they choose not to sell data on those conditions. Hence either Google and others introduce a charge for products containing DigitalGlobe data or they cannot have the data.

Since there is no competitor which today can undermine that policy, DigitalGlobe can protect the price point in the market and has taken the decision not to sell to Google and others. How long can this endure? Airbus and Imagesat are supposedly already working to bring higher resolution data to the market in competition with DigitalGlobe. But it is unlikely that a second source will be enough to force change. Will other suppliers emerge with a 25cm resolution offer? These are expensive high performance systems which require a lot of investment. DigitalGlobe state that 65% of their sales are to the US government and whilst the DG of the NSA recently said he would be looking at some of the new systems as potential suppliers of data, the military and security demand for the highest resolution will remain. Whilst we can hope (expect?) that this proportion will fall as new markets emerge, it would seem that government policy will remain the key determinant for the satellite operators.

But perhaps the biggest risk for DigitalGlobe and others is that refusing to supply a large client may induce them to develop their own sources. Google has more than sufficient resources to support Skybox with more performant systems. It is always dangerous to refuse to supply a major player in any market. Power in the value-chain is everything (just ask the french farmers for their views on this), hence maybe the biggest risk for DigitalGlobe from this policy could be to induce a new competitor which would ultimately also eat into its share of the US government market.