

DISRUPTIVE BUSINESS MODELS

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Traditional business models are under threat. They are less long-lasting than they used to be and are subject to being rapidly disrupted and, in extreme cases, to disappearing completely.

Blockbuster is the most notable example. The business was a market-leader in video rentals. It had a supply and logistics chain that enabled it to maintain the status quo. But the company soon stalled and it did not respond to the challenge of video-on-demand services. And now Netflix is the new king in consumer video, video on demand, digital video and streaming.

Recently the North American giant among toy retailers, Toys 'R' Us, staggered the market when it announced just a few months ago that it was filing for bankruptcy, citing "relentless competition from on-line retailers" as one of the main causes of its predicament.

The biggest disruptor of them all is the Amazon behemoth, and there are many businesses - not just in distribution - who tremble at the mere mention of its name.

The most recent example came but a few weeks ago when the retail giant announced that it was going to work with Berkshire Hathaway, Warren Buffett's holding company, and JP Morgan Chase to create a business to offer affordable health services to their employees. Immediately, shares of listed health insurers fell sharply, wiping billions of dollars off the value of their shareholders' portfolios.

But it's not just about Amazon.

Every year the financial TV channel CNBC announces the so-called Disruptor 50, a list of the 50 private companies whose innovations have had the greatest impact across the globe. This year the list includes companies from sectors as diverse as biotechnology, education, transport, retail, and even aerospace, among others.

Together, these 50 businesses were able to attract more than \$78 billion in risk capital in 2007, giving them a market value of \$350 billion.

Thirty-three of these 50 companies are unicorns. By definition, a unicorn is a magical mythical creature. But in business the word has very different connotations. Aileen Lee, founder of Cowboy Ventures, was the first person to use the term back in November 2013. It describes a technology company that achieves a valuation of a billion dollars at some point in its capital-raising process, before listing on a stock exchange.

At the top of this year's list is Space X, the company at the head of the new space race. Like Tesla, the company was founded by Elon Musk. This year it successfully launched its Falcon Heavy rocket from the Kennedy Space Center. It's the first time that a rocket of that size has been launched by a private company rather than a government space agency. The Falcon Heavy rocket will play a key role, because the business is betting that in the not too distant future it will be able to ferry people and goods between Earth and Mars.

At number two on the list stands Uber, the business which is disrupting public transport and taxi and minicab services. Shared transport companies like Uber have found that it was easy to turn the taxi industry upside down, since GPS and smartphone technologies had wiped out the competitive advantage of taxi-drivers in terms of knowing how to get to places.

And in bronze medal position, Airbnb which is changing the tourism and hospitality industry. The emergence of platforms like Airbnb has meant that more people can travel. The San Francisco based giant is present in 81,000 cities in 191 countries and has more than 4.5 million listings on its platform, including 3,000 castles and 1,400 treehouses.

More businesses will disappear, probably, as we move further into the era of digital disruption, or what the World Economic Forum refers to as the “Fourth Industrial Revolution”. The digital economy and digital disruption basically require the restructuring of every business, or at least of their business model, in terms of digital transformation. If not, we know what fate awaits them.