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A Business of Niches

By Robert Bell

There is an old joke in Washington DC about the Department of Defense, and it goes like this. The good news for the DOD is that, by 2010 (or whatever date is then suitably distant), the US defense budget will be $1 trillion (or whatever number is then suitably astronomical). The bad news is that, by then, it will only buy one airplane.

This joke comes to mind in contemplating the pace of ownership changes in the satellite communications industry, particularly where ground segment is concerned. The most recent example is the April 2004 announcement by SES Americom that it would buy the assets of the bankrupt Verestar from American Tower Corporation. Those assets include five teleports in the US and Europe, 225 employees, and service contracts with broadcasters, governments, enterprises, maritime customers and Connexion by Boeing. This purchase made SES Americom the third global satellite carrier to become a significant teleport operator, following on the heels of Intelsat, which bought and built four teleports in 2002-03 and added a fifth this year, and of PanAmSat, which built a network of US teleports as part of its original growth strategy.

Are the fabled days of the independent teleport operator — those hardy pioneers who created the commercial business starting in the 1980s — now over? Is this an industry destined to be once again controlled by giants, as it was in the days of universal telecom monopolies?

Teleport Benchmarks

Insights, if not answers, to these questions are to be found in the *Teleport Benchmarks 2004* report published in June by World Teleport Association. The fourth annual survey of the teleport sector, *Benchmarks 2004* once again provides aggregate financial and operational statistics for teleport operating companies and a survey of opinion on business conditions and industry trends, based on confidential information submitted by the members of WTA. The report aims to meet the needs of executives responsible for teleport operating company finances and operations, those selling products and services to teleport operators, and investors seeking to understand their financial performance. The report is available free to WTA members and for sale to non-members from the WTA Web site at www.worldteleport.org.

In the term "teleport operating companies," WTA includes not only dedicated ground segment providers but also the rising number of satellite and fiber carriers, systems integrators, and specialist telecom providers that operate teleports in order to serve their customers.

The Big Get Bigger

The big are certainly getting bigger, according the report. The average "large" teleport operating company, defined as a company with over US$70 million in sales, had revenues of $267 million in the 2004 survey, compared with $115m in the 2003 sample group. The bigger also did better. In a period when the industry was in the early stages of recovery from prolonged recession, the average annual growth rate of the large companies in the 2004 survey was 2%, while the average "small" company (defined as companies with under $20m in sales) saw revenues decline by 16%.

That said, however, the giants did not have it all their own way. The best-performing segment was the middle market: companies with between $20m and $70m in annual revenues. With an average of $59m in sales, these companies grew 4% on average in the 2004 data and 7% on average the year before, when their large competitors saw revenues decline by 7%.

These trends were borne out by an analysis of the number of companies reporting revenue increases and declines in the 2004 and 2003 samples. In the 2004 sample, 67% of large companies reported year-on-year revenue increases, compared with only 14% of small companies. This marked a sharp change from the 2003 sample, in which just 33% of large companies saw revenues rise, while 43% of small companies grew their year-on-year sales. Once again, the middle market was the place to be, with all of the companies in this segment experiencing revenue increases in both years.

Niche Solutions

What do these statistics tell us? First of all, that in bad economic times, companies with greater scale and capitalization can outlast the smaller and undercapitalized. It takes great skill and a fair amount of luck to steer a small company through a prolonged recession. What has become clear to me, in conversations with teleport operators, is that it also takes devotion to a niche. The business of "plain vanilla" uplinking that marked the sector's early days has long ceased to be a source of profitability. For most teleport operating companies, success comes from identifying one or more niches and working tirelessly to provide high-value, end-to-end solutions to those niches. The largest companies in the business, by leveraging their scale, may still be able to afford to be all things to all customers, but mere scale is no answer, as demonstrated by the unhappy experience of Verestar in rolling up 10 independent teleport operators in a few years. Nor is a global presence necessarily critical. The middle market companies in the *Benchmarks* report were strictly regional in scope, but managed to be very successful nonetheless. In fact, the emergence of a healthy middle market was one of the most positive trends revealed by the 2004 survey, reflecting a healthy diversification.

In addition to providing financial and operational benchmarks, the 2004 report also asked respondents to comment on these trends. Their answers were sometimes highly revealing. For example, the survey asked if customers would increasingly demand integrated, end-to-end solutions incorporating teleports, satellite capacity and fiber, or whether they would instead seek greater control and lower cost by purchasing these elements separately. In the 2003 survey, the responses were widely mixed, but by 2004, the jury was in. Fully 100% of respondents agreed that end-to-end solutions would be the future of the industry.

How to Add Value

This unanimous vote is another reflection of an emerging consensus that this is a business of niches. It also reflects the fact that, in the distribution chain of satellite communications, teleports are the point at which it is easiest and most cost-effective to add value and outsource functions that customers must otherwise provide themselves.

The niches currently being served by the industry include media & entertainment, where operators seek to do much more than basic transmission for program contribution and distribution — they provide production and post-production; digital archiving, hosting and origination in multiple formats for traditional and Web-based playout; translation and dubbing; even narrowcast DTH services. For enterprise customers, they offer complete BTV and distance-education production and distribution, including integration of remote terminals and network management. For specialized industries like oilfield services and maritime, they provide a complete network package including equipment, connectivity, management and value-added services ranging from large file transfer to onboard banking. For ISPs, they bundle system integration, wireless network construction, voice over IP service, network management and content offerings into the basic connectivity platform. And for governments, they work with leading consulting companies to fashion custom solutions supporting the needs of military and civilian agencies.

End-to-end solutions are the order of the day, but this is less a description of network topology than of a commitment to meet as many of the customer's needs as possible. And this commitment is hardly the exclusive province of big companies. As the industry returns to growth — something to which the statistics in *Benchmarks 2004* clearly point — the most likely outcome will be a continuation of the expansion in the middle market, steady growth by the biggest players, and the entry of entrepreneurial companies to serve new niches that are now arising.

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