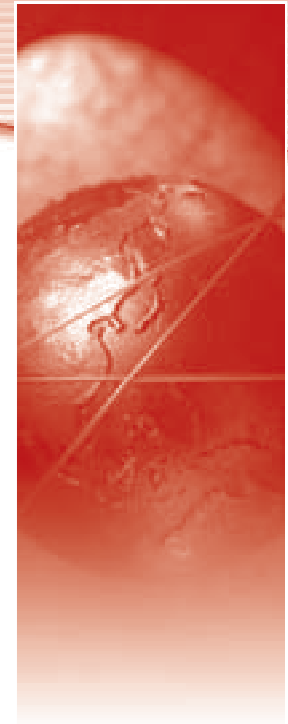
World Teleport Association

For the past seven years, the teleport sector of the satellite industry has been engaged in an experiment. It is a quest to learn, in this particular corner of the global economy, whether bigger is necessarily better. By Robert Bell, Executive Director of the World Teleport Association (WTA).



Is bigger better?

A teleport is a satellite uplink hub - unless you are a fan of Star Trek. There are thousands of teleports around the world operated by hundreds of companies. They are the gateways to the world's satellite fleets, and serve as satellite Points-of-Presence (PoP) on the world's fibre networks. They translate protocols, bridge incompatible technologies, host and manage content and assemble complex communications solutions for customers.

Teleports have twin roots. Nearly all of the world's Post Telegraph and Telephone companies (PTTs) and former PTTs are teleport operators. Former PTTs that have become competitive providers, from BT Broadcast Services to REACH, entered the competitive market with an array of sunk-cost facilities and the systems already in place to run them as an integrated network. They began life as 'big' companies operating in many locations and delivering multiple services.

The other branch of the teleport legacy consists of entrepreneurs. They saw and still see opportunities, created by the liberalisation of telecom regulations, to enter a new business. They found customers, built uplink facilities, and began delivering services. The majority found that they preferred to remain small businesses: operating between one and three teleports, growing slowly and methodically, investing only when required by a customer contract, and avoiding debt.

A small number of them have seen a bigger opportunity. They have acquired multiple teleports founded by other entrepreneurs, leased satellite and fibre capacity to create integrated networks, and invested in content hosting and management facilities. They seek to gain economies of scale in order to generate more revenue from their assets and spread their costs across a bigger customer base. They have chosen to be big in hopes that bigger is dramatically better.

Outcomes

So, given these different business models, who is the winner? The short answer is that it is too soon to tell. The current downturn is the industry's first since this experiment began, and it is in bad times that business models prove their viability.

The former PTTs have had varying degrees of success in becoming dynamic and aggressive service providers to the teleport marketplace. For them, corporate culture rather than cash flow is the key issue.

The small entrepreneurs are, for the most part, doing well. Because they avoided debt and focused obsessively on customer service, most have weathered the current downturn well. They were the 'stars' of WTA's Teleport Benchmarks 2003 survey; while the average teleport operator experienced a five per cent revenue decline from 2001 to 2002, 45 per cent of the survey's sample group saw revenues climb over that period, and smaller operators were prominent in this group. The average revenue decline was driven by the 55 per cent of operators who saw revenues fall, dramatically in some cases (www.worldteleport.org/Teleport/TeleMarketplace.html).

Some entrepreneurs are expanding aggressively as competitors withdraw from the market, and are forging strategic alliances with satellite carriers, technology providers and other teleport operators. They will never set the business world on fire, but they have positive cash flow and earn a reasonable return on a limited investment.

The jury is out

The jury is still out where the consolidators are concerned. A few companies have built teleport networks via acquisition. According to WTA's Benchmarks survey, the economies of scale they seek are real. Large operators in the survey generated an average of US$24.3 million from each teleport, and $1.5m from each antenna, they operated. Small operators, in contrast, generated $9.3m per teleport and $1.1m per antenna. Large operators had $258,000 in revenue for each employee on staff, while smaller operators achieved only $191,000 in revenues per employee.

It is not yet clear, however, if the consolidators will become dominant. Some have faced financial distress, while others have struggled to consolidate operations and integrate systems. It will be in the coming months and possibly years that the consolidation story, as it applies to ground segment, will play out. ■