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## VSATs - As Challenges Mount, Opportunities Grow

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Just like all telecommunication markets, the VSAT business faces some tough challenges today. In one sense the challenge is a simple global one which is common to all - the slowdown in IT spending by potential customers. Projects are being moth-balled, stalled, cut-back or cut altogether, but this is not new news and something that the world economy has to live through. In fact, the VSAT industry seems to have weathered the economic storm of the past two years relatively well in comparison with so many other parts of the telecoms business. To be sure, sales are harder and many companies have seen a small decline in their business, but there are some which have managed to achieve growth, albeit in single digits, and this has been happening when companies involved in the fibre, cellular, wireless and fixed line businesses have been posting declines of tens of per cent in revenues. So the VSAT business has fared relatively well and there are some real bright spots on the horizon for the technology, but there are some significant hurdles which have yet to be overcome in the short term

On a detailed level, the challenges for the VSAT business fragment between regions with each exhibiting particular local characteristics. In Asia, the market varies between heady optimism and huge opportunities in China and India to virtual collapse in places like Thailand. The countries in the region are experienced in managing economic catastrophe following the economic meltdown which occurred in South-East Asia in 1998 - the effects of which are still being felt today. However, there are signs that some markets, for example Indonesia and the Philippines, are beginning to recover with sales now looking a little more encouraging.

In Latin America, the severe economic problems of Argentina and Venezuela are definitely having a knock-on effect in other countries, but still the economic heart of the continent, Brazil, seems to be staying on its feet. Despite the fact that times are hard in the country, sales of VSAT systems and services remain relatively buoyant. Each sale is harder than it was and the easy days of selling simple bandwidth and connectivity are well and truly gone. In its place we have seen the need to sell applications and value added services rather than commodity items. In fact, with perhaps the exception of Africa - and even there the signs are already evident that this changing - all markets are beginning to reflect the value propositions and pricing strategies seen in the United States rather than the old "there is no alternative" pitch.

Western Europe has always been on the same path as the US, but Latin America was the first of the developing regions to see application specific VSAT networks. By this, we refer to networks which are designed around one or more critical uses - credit verification for gas stations is possibly the best and most obvious example. The final network will probably do far more than this one simple task, but the justification and sale hinges on the value proposition for this one application. Pricing is also reflected in this approach which revolves less around the amount of bits and more the value of those bits. VSAT provides

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a means by which companies can feel confident on the efficient and reliable carriage of this mission critical data end-to-end in a world which is beset with operator and network failures. Literally, VSAT technology enables users to rise above the problems of the terrestrial world.

By contrast with North America, the enterprise market in Europe is beginning to look a little tarnished. The old problems of cultural barriers remain as high as ever and the lack of true pan-European businesses which are managed and controlled by a single entity, rather than a series of national franchises which ultimately go their own way, is a severe handicap. Most of the old licensing and regulatory problems are now a thing of the past in the continent, but the fact that the French, Italians, Germans, Spanish and British are very different in almost every respect, means that networking on a pan-European basis is a hard sell. That said, the value proposition is proven because it is extremely hard, if not impossible for a national operator, however large, to provision a European network and guarantee quality of service with full and enforceable SLAs. On individual domestic networks, the large incumbent operators retain a power and a grip on the telecoms infrastructure which gives them huge capabilities to play with costs and prices unmatched by VSAT operators. A few domestic networks have been sold around Europe, but mostly these pivot on the customer's full understanding of the advantages that satellite technology brings and are willing to take a "risk". VSAT is not as accepted in Europe as it is in North America and IT managers continue to see the incumbent terrestrial provider as the "safe" choice - at least for their own careers.

VSAT services have always faced low cost opposition in the form of Trojan horses. A few years ago the *bête noir* was ISDN "D" channels. Unused by the majority of ISDN customers, the 16 kbps packetised D channel provided capacity which operators in Europe and the US tried to sell off cheaply. Today the low cost competition is DSL and IP VPNs. At prices of \$40 per month per drop, depending where you are, the temptation to adopt this approach has been too much for some. However, these services represent false dreams, in that they cannot deliver what the customer requires in their native form. \$40 per month is simply not enough to provide a business class DSL service with end-to-end network management, quality of service guarantees and minimum guaranteed repair times. With the addition of these basic requirements, business class DSL services triple (at least) in cost. The problem for VSAT service providers is that this false gold lures customers away, eats into budgets, dramatically extends the sales cycle and de-focuses implementation teams. A case in point was seen recently in the United States where a major franchise operator first chose VSAT, then was lured away by the promise of DSL only to return to VSAT when, a year later, the terrestrial operator finally admitted that it was only able to provision 80 per cent of the customer's requirements in its own area. In other areas, outside the operator's control, it had to concede that it could do no better than 20 per cent of the requirement. In the end the customer has implemented a VSAT network, but the process has cost them more money and between 18 and 24 months of delay in the final deployment of their network.

Truly, the customer should have known better. A promise which you know cannot be fulfilled, is not worth the paper it is written on whatever the size of the company making the pledge. In addition, the value proposition offered by VSAT is clear and demonstrable. A VSAT operator does control the network from end-to-end. Third parties are not required

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for tail circuits or local connection and full network management is fully integrated into the technology from the ground up. Systems have been designed in totality, rather than the integration of a variety of sub-systems from different manufacturers and this offers a level of system visibility which is effectively unmatched by terrestrial services. Time and time again, when visiting VSAT operators across the world, we have been told how, in most cases, staff in network operations centres identify problems and have a repair underway before the customer has even realised there is a problem. In many instances, VSAT systems are now so sophisticated that NOC staff are able to identify when the customer's own IT fabric has a problem as opposed to the WAN that the VSAT supports. In addition, there are the twin advantages that there is no physical reason that a direct connection cannot be made between any sites underneath a particular satellite beam and the fact that every single site receives a service which is directly and absolutely comparable to every other. This latter point - uniformity - is a major value driver because it radically simplifies and accelerates the deployment of new applications on a network. The user has the luxury of knowing that if the application works on one VSAT, it will work on all of them.

This set of features is a given for the large corporate enterprise with an extensive network of sites, but it is less of a need for the small to medium sized enterprise (SME). In the days of wild optimism, the major VSAT players looked towards the consumer market to provide the next phase of growth for the industry. However, in the cold light of day, it is clear that the consumer does not hold the keys to the land of plenty - at least not right now. By and large a consumer wants to pay nothing for their service - the Internet should be free. So any operator faces an uphill challenge because whatever they do, the chances are the customer will be unhappy with their monthly bill and will always be trying to take as much bandwidth - that hugely expensive resource in the satellite world - as they possibly can. By contrast, the operator wants to charge the customer more and reduce bandwidth consumption per individual user as much as possible. This is not a good business model.

The answer has been to look towards the SME and all major operators are doing exactly that. From Starband and DirecWay in the US to BT Openworld and Tiscali in Europe, it is the SME which now occupies the prime role as best prospect. The problem with this customer is how to reach them and make a sale. Large corporates can be wined and dined, consumers can visit Tandy or Circuit City, but SMEs are a different prospect altogether. The challenge then is to build channels to this market and, in most cases, these take the form of smaller ISPs, specialist distributors and IT integrators to give a few examples. We have only seen a small level of activity of this type in North America and elsewhere, but in Europe the push is in full force with Hughes Network Systems, Gilat Satellite Networks and Viasat all working on this approach. Hughes appears to have been the most successful by targeting relatively small, but experienced and knowledgeable resellers and by being first to market with a pre-packaged deal in terms of a defined bundled service product which the reseller understands and can sell in a simple process to their own end customers. Others have followed this lead and this has opened the door on the potential of the SME market.

Lessons have also been learned from the consumer experience by all major hardware players. New versions of the end user terminal are now full hosting machines - with no requirement for software to be placed on the customer's computer. This is a major step forward because prior to this, the simple addition of a small software package on a host

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PC opened the operator to all kinds of demands for technical assistance totally unrelated to the VSAT connection. Now an operator has a well defined demarcation line - something that limits liability and enables margins to be calculated and built. COMSYS expects that, over time, these self-hosting VSATs will effectively dominate sales to the exclusion of the first single user versions of consumer VSATs.

In these troubled times the VSAT business is not immune to the problems of the global economy, but it is perhaps better positioned to ride the storm than virtually any other communications technology or service. Investment in a VSAT system is incremental unlike the “build it and they will come” requirements of other technologies. Additionally, as major operators struggle with financial stability, and even those that are healthy face outages caused by the failure of their partners, the telecoms services market is losing the smooth face of seamlessness which was touted as a major sales point in the late 1990s. Here then is an opportunity for VSAT operators because a VSAT service is end-to-end, it is seamless and it is “one call does it all” and this is something that can be said of Africa as well as the United States. Finally, there are real opportunities being opened up in the SME sector. True, there remain challenges associated with actually reaching out to this market, but as terrestrial DSL deployments have slowed, the opportunities for VSAT operators and smart distributors to exploit the demand from SMEs for reliable broadband connectivity have multiplied.

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***The VSAT Report*** is published by comsys every two years. The study covers over 40 systems and 200 operators across the world and offers a detailed look at the dynamics of the VSAT market. It comprises an in-depth statistical analysis of the bookings, services and revenues of all aspects of the VSAT business over four volumes and 1,500 pages. The Report can be ordered from comsys at +44-1727-832288 or via the web at [www.comsys.co.uk](http://www.comsys.co.uk).