

Inmarsat's Challenging Transition

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For Inmarsat, the move into the maritime VSAT world is a leap far beyond the scope of a difficult technological transition. The Company's bold move will require a re-make of its traditional business and financial structure. To be successful, Inmarsat must morph from a traditional communications provider that sells by the byte and by the minute to a solutions provider skilled in systems integration and consultative selling. This challenge, if properly met, will insure Inmarsat's dominance in the maritime communications world, or if unmet, could relegate the Company to the ranks of other corporate giants who missed a critical turn in the market and are no more.



Inmarsat 5 satellite

The Rush To Fixed Priced Broadband

From nearly no market penetration three years ago to more than 5,000 installations today, VSAT adoption continues to grow dramatically. In **Inmarsat's** core heavy user market, the shift to VSAT continues to accelerate.

To its credit, Inmarsat has achieved some success by defending its position through aggressive discounting of its **FleetBroadband** service and a novel-pricing plan called **SCAP** (*Shared Corporate Access Plan*), directed specifically at the large fleet market. Under SCAP, owners with 50 or more vessels and ready to commit to three year contracts can reportedly buy packages of 2 to 5 Gigabytes per/month for as little as \$1 per/Megabyte. The implementation of if the SCAP combined with the recession has helped Inmarsat – especially in the Containership segment.

The Plan has been especially effective because the high price of a 1.2 Meter VSAT Antenna (\$60,000 or more) has been difficult to justify during the severe downturn in container shipping — purchasing FleetBroadband makes sense as a first step when acquiring a hybrid L/Ku Band service (as it is required anyway as a VSAT back up). However, despite the aggressive marketing of FleetBroadband and the SCAP, major operators have conducted numerous VSAT trials, and a significant move to the technology in the Containership sector is expected as economic conditions normalize.

In the Tanker segment, **Teekay Shipping**, **Frontline** and **Tsakos Tankers** are recent purchasers of major VSAT systems. With demand for more than 50 Gigabytes per/month per ship of data, *Rob Morrison*, Teekay's IT Manager for Europe, notes at the recent *Digital Ship Conference* in Stamford that FleetBroadband is, simply put, economically impractical. Tsakos, one of the largest Greek Tanker operators and a leader in new technology adoption has 2.4 Meter C-band Systems installed on 17 of its vessels — **Eletson**, one of the largest product tanker companies, plans to install VSAT within the next 18 months. With the adoption of VSAT spreading, the pressure for Inmarsat to react has intensified.

Inmarsat Responds

In August, Inmarsat stunned the Maritime VSAT community by announcing its answer to the Ku- VSAT threat, the **Global Xpress** service, a high capacity Ka-band Service billed to deliver speeds up to 50 Megabits per/second to antennas as small as 20 cm. According to *Andrew Sukawaty*, CEO of Inmarsat, the move to Ka- was justified by limited Ku- availability.



Andrew Sukawaty,
CEO, Inmarsat

While Sukawaty's logic seems inescapable — lack of capacity in Ku-, the use of the proposed Ka- infrastructure raises significant technological questions regarding the ability of the narrow beam structure to support services with *Committed Information Rate Service (CIR)*. CIR is a feature often demanded by large fleets of sophisticated users. Ka-'s ability to deliver "always on" service, especially under Rain Fade conditions, is also in question.

While the advanced infrastructure of the **Boeing 702 HP** satellites and state-of-the-art coding and modulation techniques are likely to mitigate the technical issues associated with the new **I5** Service, no one knows for sure how the service will actually perform under tropical rain. Unlike FleetBroadband with its verified L-band performance, trials will almost certainly be required to prove Ka's viability in a monsoon or heavy rain environment. While reaction to the proposed service, so far, has focused largely on these sorts of technical issues, the business and financial issues associated with the new Global Xpress services offer daunting challenges as well.

Needed — A New Business Model

The need to re-make the Inmarsat business model to accommodate Global Xpress has profound implications to the Company itself and its reseller network. The entire marketing and sales structure will need to be altered, sales personnel will need to be retrained or replaced, and there will be severe effects on the cash flow of both Inmarsat and its resellers.

In the conventional Inmarsat business model, services are offered either by the byte or by the

minute. Customers know what they are buying; the sale cycle is short; selling expense is low, and cash flow is realized in the short term. The VSAT business environment is substantially different.

In the VSAT or Fixed Priced Broadband model, the sales cycle is long, 1 to 2 years. Selling costs are high and the cash flow cycle is greatly extended. Unless accounted for in the financial projections and compensated for by Inmarsat and its re-sellers, the extended cash flow and higher selling costs associated with a VSAT model could adversely affect the ability to service Inmarsat debt as well as the ability to fund the higher selling costs associated with a long term consultative sale. Furthermore, due to the need to initially prove out the Ka- service under actual sea conditions, initial cash flows from sales of the new service could be even more protracted. Whether Inmarsat's vast network of re-sellers will be able to support this added financial burden is an open question.

Apart from the financial challenges associated with the sale of the new service, the variant nature of the market segments will require marketing to develop service packages and sales strategies tailored to the needs of each segment — Containerships, Tankers, Oilfield Service Vessels, Fishing, and so on. Each segment will require different pricing plans, different rationale for justifying cost, specialized software to regulate access and manage bandwidth, and specialized content and value added services. The pricing structure of Global Xpress will also be a very critical issue.

Of course, The *Holy Grail* of a Maritime VSAT service is an *always on* high capacity service delivered at one fixed price. Current L/Ku- Services still require users

to pay-by-the-byte for L-band during periods when Ku- Service is not available, a fundamental weakness of the hybrid service. When Ku- is not available, users must either curtail their use of the Internet or be exposed to potentially unlimited expense. To be truly compelling, Inmarsat must be able to differentiate by offering a totally fixed priced service that includes the L-band backup. Without this feature, the Global Xpress offering will be more of a *me too* service and less of a game changer.

Needed — New Selling Skills and Training

For sales and marketing professionals accustomed to selling bytes and minutes, adjusting to a consultative selling environment will be especially challenging. In particular, the need to educate not just the IT shipping people, but finance and top management in the virtues and value of a VSAT service will also be an issue and add significant complexity to the sales process. Sales personnel who have never made a C level presentation before will now be faced the need to address sophisticated business and financial issues as well as the traditional technical issues usually associated with the sale of such services.

While some of Inmarsat's resellers have the requisite consultative selling skills through their experience selling hybrid L\Ku-band VSAT packages, many sell only Inmarsat and Iridium. Even Inmarsat's **Stratos**, a company that has sold VSAT services, has most of its VSAT experience in the oilfield, not in global shipping. In fact, the Company has lately placed much of its sales emphasis on FleetBroadband and does not currently offer global Ku- to the global shipping industry.



Image courtesy of Seaband Satellite Communications

Success — Complex + Challenging — But Achievable

The bottom line is that while Inmarsat has cleverly hedged risk through Boeing's *take or pay* commitment on a minimum of 10 percent of network capacity, success in the maritime market entails numerous business and technical challenges. Success achieved under one business model does not guarantee success in another, and market dominance can easily be lost on the slipper slope of change. Whatever the outcome of its Global Xpress venture, Inmarsat has indeed recognized the challenge of a changing market, accepted the risks of navigating a new direction and has boldly staked its claim on a new broadband future.



About the author

Mr. Gottlieb is Managing Director of Gottlieb International Group Inc. His firm specializes in the application of VSAT Technology in Maritime and Oil and Gas Markets — the mission is to provide vendors with the “hands on” information and contacts to structure product and service offerings and to assist maritime VSAT buyers in selecting the appropriate service and vendor. Clients have included Iridium, Intelsat, KVH Industries, Globecom Systems, Inmarsat, RigNet, Verestar, Parallel Software, THISS Technologies, (Singapore), Sonic Telecom, and Private Equity Firms Permira Advisors, Apax and Midwood Capital. Alan has published numerous articles in *SatNews*, *Digital Ship*, and *Satellite Market Research* and has recently authored *Buying Maritime VSAT, The First Independent Guide*, a work that debunks the myths associated with buying Maritime VSAT.



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