



Paul Brown-Kenyon, Vice President (VP) of Sales and Marketing at MEASAT, offers a perspective on the future evolution of the region's satellite industry.

MEASAT

Where next?

▶▶ **The business of owning and operating** satellites is a classical 'fixed cost' industry. Satellites cost between US\$150 million and \$300 million to build, launch and insure. Between deciding to purchase a satellite and finally completing the in-orbit testing takes at least two

years - more normally - three. When finally operational, the investment remains productive for another ten to 15 years. To add to this, satellites are not always purchased for purely economic reasons, with governments sometimes embarking on commercial satellite programmes with nationalistic or security motivations the key driver.

In classical economics, this set of factors creates the potential for an unstable industry with large swings in the balance between supply and demand. It is no surprise then that the euphoria of the telecommunications bubble at the end of the 1990s has created a satellite industry with significant areas of oversupply. The mismatch between demand and supply has led to a number of firms struggling to cover their cost base; the reduction of pricing to, or in some cases below, cost as operators search to win customers; and, the continual talk of industry consolidation as firms seek to exit from today's tough business environment.

Behind the corner

So what are the long term prospects for this industry? Can the industry, and all its operators, look forward to a continual struggle to create economic returns on their investments? Not necessarily. While there will always be a scramble for some customers, others have very specific needs that can only be met by few satellites. This creates the potential for a two tier industry: some operators always struggling in a highly competitive market, others able to find stability serving key customer segments.

Direct-To-Home (DTH) companies, such as BSKyB, Astro, SkyPerfectTV, require 'high quality' satellites. They require satellites with high-powered and country focused Ku-band beams; they require operators able to provide 'live' in-orbit satellite redundancy; and, they want to work with operators with a strong track record who can guarantee capacity into the future. As satellite payloads often have to be specifically designed to meet their needs (for example, with tight country beams rather than wide zonal ones), DTH



An artist's impression of the MEASAT-3 satellite



companies are often prepared to pay slight premiums on transponder lease rates to secure the 'right' capacity. Further, once working with a satellite operator, they will rarely switch between platforms.

Video cable distribution provides a similar niche for C-band satellite operators. Cable channels require high powered satellites, wide coverage and importantly connectivity to key cable head ends over the footprint of the satellite. As there are many thousands, if not tens of thousands, of head ends over a satellite footprint, and since these only operate a small number of dishes, very few satellites can offer this service.

In comparison, other types of traffic can be supported by multiple satellites. Internet Protocol (IP) connectivity is an example. It tends to be point to point, tends to operate with larger antennas, and tends to have less severe redundancy requirements. As such, IP connectivity can be served by multiple satellites with minimal switching costs. Competition for this traffic between satellite operators will be fierce, and pricing more aggressive with customers switching to the lowest cost provider.

If you assume - due to limited opportunity and the heavy investment needed - that only a small number of systems can support the likes of DTH operators and cable companies, you are left with a satellite industry of two parts. Each will operate a very different business model, and each is able to achieve a very different return on their investment. Operators able to secure DTH or cable head-end distribution are able to operate satellites, and ultimately a business, with a stable and profitable core set of customers prepared to pay economic rates for good quality satellites. Pricing provides economic returns on the investments made, and the resulting stability allows the satellite operator to plan and build for the future. Beyond this core set of customers, these operators may choose to compete for more competitive traffic, or simply choose not to, thereby maintaining average pricing at a higher rate.

In contrast, the second tier of satellite operators does not have the luxury of a stable core business. The traffic they support can migrate to others with relative ease, and will leverage this fact to drive pricing down to cost. In situations of over-capacity, competition becomes fierce and pricing is driven down below costs. These companies will struggle to fill their satellites, and struggle to create economic returns on their investment.

Conclusion

While this scenario may be somewhat simplistic, the message is clear - the need to create a sustainable business by identifying stable and profitable niche segments. While DTH and cable head-end distribution are two key segments today, only a limited number of satellites can claim them as their own.

As a satellite operator, if you are not in a position to serve these segments, the key strategic requisite is to search for new ones against which you can lay claim to. Without these, the only course is to buckle down for a long hard struggle for survival. ■



MEASAT's Satellite Control Centre

MEASAT-3: investing in meeting market requirements

MEASAT operates a satellite network of two spacecraft located at 91.5 degrees East and 148 degrees East providing C-band and Ku-band coverage across South East Asia, East Asia and Australia, with full connectivity to the US. Through these satellites, MEASAT serves many of the regions leading broadcasters and Telecommunications companies, while supporting a number of Direct-To-Home (DTH) platforms including Astro and VTV.

In 2003, MEASAT contracted Boeing Satellite Systems (BSS) to design and manufacture the company's third satellite, MEASAT-3. To be launched in mid-2005, MEASAT-3 will be co-located with MEASAT-1 at 91.5 degrees East. The new satellite will expand the systems capacity, while providing satellite in-orbit redundancy at 91.5 degrees for both C-band and Ku-band customers.

Equipped with three country focused Ku-band beams, MEASAT-3 provides DTH quality capacity over the Malaysia, Indonesian and the South Asian markets. MEASAT-3 has also been designed with two high powered C-Band beams, providing Asian and Global coverage. The C-band global beam provides access to 70 per cent of the world's population through a single high powered C-band beam.

To support this growing satellite network, MEASAT is also developing a new KL Teleport. Scheduled to be operational by early 2005, the facility is being designed to provide customers in the broadcasting and telecommunications segments with a range of satellite value added services.

With high levels of investment in the system, MEASAT will continue to provide high quality satellite communications services tailored for its customers in the DTH, broadcasting and telecommunications industries. ■

