

# What Will Satellite Services Businesses Look Like Tomorrow?

by Robert Bell

I am often asked if the future of the satellite services business is all about consolidation. Over the past decade, we have seen a handful of service providers grow from small, entrepreneurial companies into multinational businesses that operate across every time zone. The “majors” now include Encompass Digital Media, GlobeCast, RRSat Global Communications, Globecomm and Harris CapRock, while regional players like Arqiva, SpeedCast and Signalthorn Trusted Networks dominate in their regions.

To some, the rise of the majors makes it appear that every teleport in the world will wind up in the hands of one of them, and that the entrepreneurial spirit that has always driven the growth of the business will be snuffed out. It is a bit like the old joke about the US defense budget. As the cost of big weapons systems spirals higher and higher, someone did a bit of arithmetic and calculated that, a few decades from now, the entire budget will buy just one airplane. But it would be one amazing airplane.

## Tomorrow's Teleport Business

This month the World Teleport Association will publish a report that looks inside the consolidation trend and compares these acquisition-driven companies to the entrepreneurs who are growing their businesses organically. *Tomorrow's Teleport Business* will explore the opportunities and challenges facing the independent teleport operator in today's marketplace, where serial acquirers are building global businesses that deliver one-stop, end-to-end service to the world's multinational media, maritime, resource, energy and governmental organizations.

Though they lack scale and buying power, entrepreneurs continue to de-

liver significant innovation in applications, technology and operations, which bigger firms with large installed customer bases can find hard to do. Will the market reward the biggest companies with continued growth opportunities or will size pose limits to their progress? Will small companies find themselves squeezed out of opportunity or will they out-innovate and out-perform their larger competitors?

## What Technology Businesses Do The Strategic Investor

With interviews still going on, I don't yet know what the answers will be. But I am pretty sure I know what a robust technology market looks like, and I think the rise of the majors is a hopeful sign for the innovators and entrepreneurs who continue to give birth to new service businesses.

A healthy tech business has multiple levels, with companies at different stages of their evolution. Innovators identify a new niche, new application or unmet need and create a company to serve it. In a capital-intensive business like communications services, that is a significant achievement in itself. If the company succeeds, it looks for opportunities to expand into related niches and applications, funding it with cash on hand, friends-and-family and credit.

This describes the teleport business as it existed back in the Seventies and Eighties. At that point, however, the industry began to scale up through acquisition. Some of it made sense and some – like the Verestar fiasco – was revealed to be a financial play with no underlying business rationale. Today, there are nu-

merous solid multinational businesses that have acquired and continue to acquire smaller companies to add capabilities or geographic reach. They serve multinational customers who seek what is essentially an outsourced solution: the ability to take over a complete business process from end to end, whether it is TV program origination or the management of a highly secure data network.

In today's market, the multinationals need the entrepreneurs to find new applications and niches, as well as to provide a pool of capabilities they can integrate into their portfolios. The entrepreneurs need the multinationals because they provide company founders with a reward for their hard work and new capital for expansion. They are also valuable because a strategic investor, seeking to fill a gap in its business, can find much greater value in a service business than a purely financial investor. (Our report, *Best Practices in Teleport Valuation*, goes into the details.)

So, yes, this is a period of consolidation in the industry. It is also a period of entrepreneurship in the industry. They co-exist and are co-dependent, as they are in all healthy technology markets. Just how the dynamic works, and how multinationals and entrepreneurs see the road ahead, will be the subject of *Tomorrow's Teleport Business*.



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