



# RESHAPING OF INFLIGHT CONNECTIVITY SECTOR IS INEVITABLE: PANASONIC

News / Airlines



**Analysts at various second and third tier financial services firms in the US often express genuine surprise when they learn that Panasonic Avionics holds a 70-80% market share of embedded IFE installs in the world fleet; has leveraged its market dominance to secure linefit offerability for its Ku connectivity and TV solution on most major aircraft types; and by the end of last year held an estimated 47% majority slice of satellite-supported connectivity commitments.**

Those who take a purely American-centric view of the connectivity world see Gogo, Global Eagle Entertainment (GEE) and ViaSat as the main players on the field, though ViaSat is obviously currently limited by geography. When they realize what Gogo and GEE are up against in the international arena – not only in the form of Panasonic but also Inmarsat – they immediately appreciate just how much Gogo and GEE have achieved, and then the questions arise: when will we see consolidation in the sector? If scale matters, as providers say it does, then surely the three Ku players cannot continue splitting up the Ku pie if they hope to remain viable and ultimately make significant bank, let alone maximize their ability to compete against Inmarsat?

And what would consolidation even look like – a Gogo/Global Eagle tie-up? An acquisition would be accretive, it is argued. Or might Panasonic, the leading IFE hardware provider consider acquiring Global Eagle, the leading IFE Content Service Provider; and would such an arrangement even pass muster with antitrust authorities (or might a Row 44-only deal be brokered, as may have been pitched a couple of years ago to Panasonic)? Perhaps a satellite operator would make a

worthy suitor for GEE or Gogo, they opine, particularly in light of Inmarsat's decision to go direct, and its move to build a hybrid ATG network in Europe.

Throw the question about consolidation to Panasonic and unsurprisingly the firm continues to see a reshaping of the sector as inevitable. The "great thing" about the connectivity business is it has momentum "and it's a serious part of the inflight market; it's hundreds of millions of dollars [and] it will bring about pressures in the marketplace for satellite operators, service providers like ourselves, GEE, Gogo, Inmarsat; it will drive pressures [and] either people will go away or combine, something will happen because it's fragmented today, probably too fragmented, and something will happen," predicts David Bruner, VP of Global Communications Services at Panasonic Avionics. "The economics alone will pull this together."

"I think this industry will be better with that. There is thrashing going on that's a little irrational that in the short-term is good for airlines, but long-term will bring some pain," notes Bruner in apparent reference to sweetheart deals being made with airlines. "Remember how badly the customer group felt when Connexion by Boeing went out of business? You're sitting with something [hardware on aircraft]; those are bad things for the marketplace and so hopefully there will be some consolidation and it will be smooth consolidation that won't hurt the airlines."

Asked by RGN to consider how Panasonic could support a hypothetical scenario whereby an airline with rival Ku kit on its aircraft seeks to replace its service provider, Bruner answered broadly that a lot of Ku connectivity equipment is not compatible, though Panasonic "would try to take advantage of whatever is there".

Intriguingly, Panasonic has already "had to answer those questions for certain airlines that are looking to change. If at all possible, if an airline made an investment for certain equipment and we use that equipment and it's good, we would never sell them something they don't need. If we can use what's there, we would."

As to whether Panasonic will itself play a direct role in consolidating the industry, Bruner says, "I can't speculate too much. We're just focused on ourselves in trying to deliver as good a service [as possible], but we're also opportunistic. We're not out looking – other than what we've done in adjacent markets [like maritime] – but in the inflight market we are just trying to focus on how do we grow organically. I'm sure our M&A team here would look at whatever makes sense, but our job is just to grow organically, make customers happier, deliver better content, and that will cause things to happen in the marketplace."

Exploiting High Throughput Satellites in the near-term is a clutch part of Panasonic's strategy. Intelsat 29e, the first 'Epic' HTS was launched by an Arianespace Ariane 5 rocket on 27 January from the Guiana Space Center in Kourou, French Guiana. Among other functions, the satellite will provide spot beams for mobility customers serving the heavily trafficked North Atlantic region. An anchor tenant on 29e, Panasonic "will grow into that capacity quickly", says Bruner, estimating that the service will be made available soon, as Intelsat CEO Stephen Spengler has also confirmed.

"It's a massive step change that will take place for us, and others as well," says Bruner of Intelsat 29e's capabilities. Indeed, it would be logical for Gogo to contract for Intelsat 29e service as well. GEE is partnered with SES, whose nextgen satellites will launch in 2017.

But Panasonic's big capacity commitments – including on 29e, Intelsat 33e and Eutelsat 172b – and the pace at which it is covering current and future needs is representative of how the IFE giant is playing to win the connectivity game.

“We don’t even have High Throughput Satellites on line and have already contracted for the extreme throughput satellites (XTS); this will go into service three years from now and four years from now but we have to do it now so that we are not constrained waiting for something else to take place. This is one of the things different in the business; we’re no longer small [in connectivity] and get a transponder here and there, and a piece of it [here and there]. We need massive amounts of capacity; you need to start four years in advance; three years to design it. You’re talking about a business with a long-term horizon. You have to have access to capital ... it’s a ‘big person’s’ business, and scary ...”

An assortment of connectivity business models have emerged. Airlines want “way more broadband, lots of flexibility, and I would say, just all kinds of different business models and that is interesting as well. If you’re a supplier you better be flexible. We’ve got customers today like Emirates, which went to nearly complementary, at \$1, and the usage is fantastic; it’s huge and my job is to deliver everything they want. And that took a lot of work. I think it’s tougher when someone wants way more bandwidth and doesn’t want to pay for it. And a bit of that is happening [in the market]; they want lots but they don’t realize the airplane is the most expensive place to deliver 1 Megabyte of capacity.”

Bruner says Panasonic won’t make promises of a max broadband speed, but will rather promise a CIR, or committed information rate. This is a guaranteed level of bandwidth – “the minimum you contract for; the lowest you will ever get”, and some airlines want those guarantees.

“It’s moving into a world that for any airline to do these things your service provider needs to have that capability and do so at a reasonable cost, I think this will narrow the field of people able to do this globally, and lift the level of service higher in terms of what can be provided and where for certain airlines and high-end bizjets...”

Global live television, meanwhile, has become “a requirement” in the last several months, according to Bruner. This appears true whether the airline is working with Panasonic or another Ku connectivity provider. Global TV is a central part of Gogo’s nextgen 2Ku offering, and GEE’s TV rollout on Southwest has been among the most successful facets of its overall IFEC offering in terms of passenger satisfaction.

Airlines are also weighing the number of TV channels on offer in addition to the capacity being brought on line to support connectivity, notes Bruner. And airlines that have had a taste of broadband and TV together “want more of everything”.

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