

CBB

On A Dish

Interview by Danila Shepovnikov



Barak Lerer, General Manager of Eurasia Region, at Gilat Satellite Networks, describes the current situation of the Russian satellite consumer broadband access (CBB) market, focusing on Ka-band services and prospects for future development.

➤ **Could you assess the current position of the Russian market (comparing, for instance, with Europe) from Gilat's point of view?**

Gilat celebrates its thirtieth anniversary this year, and almost from day one, we have been working in Russia. This illustrates the importance of this region for our business. Over this period, we have seen both highs and lows, but this is normal for the economy of any country. The last three years were particularly difficult for the Russian market. Many foreign companies operating here had to drastically reduce or even close their Russian offices. In contrast, we have managed to keep our business at a satisfactory level, which allowed us to remain here with all our assets.

Apart from Russia and Commonwealth of Independent States (CIS), which have traditionally been our high priority regions, Gilat operates in several geographic areas across Asia and Europe. We have also recently made inroads in the USA. For example, Sprint, a leading American operator, selected our satellite solution for cellular backhaul in 3G and 4G networks.

➤ **Which solutions and markets does Gilat's business in Russia focus on?**

Traditionally, we have focused on enterprise solutions. Unfortunately, for the last few years, this market has stagnated in Russia and other countries. As a result, Gilat has turned its focus to the consumer broadband Internet access (CBB) market, which is experiencing active development and growth. Along with such companies like Eutelsat, Tricolor TV (NJSC National Satellite Company), NoLimit Electronics (Satellite Company LLC) and RTComm.RU, we began to expand satellite CBB services in the Ka-band. Another promising way to develop our business is the broadband satellite access CBB on the move for mobile units. For instance, Internet access services for aircraft passengers increase particularly fast in the whole world, including Russia.

➤ **Does Gilat already have experience in implementing such projects in Russia?**

We currently do not have specific in-flight connectivity projects in Russia, however we are actively collaborating with Sukhoi Holding (PJSC Sukhoi Company) and a few other Russian airline companies.

We also collaborate with OJSC Russian Railroads, with whom we conducted a successful demonstration of Internet access services for passengers of long distance trains. Our partners and we believe this is a very promising service area, because there are many railroads in Russia and trains are the most popular and accessible way of intercity transportation. Moreover, there are private companies in Russia that offer premium trains and even separate VIP rail cars. These companies are interested in developing additional services to increase the attractiveness of their own offerings.

➤ **Let's return to mass satellite CBB. In Russia, this market has been developing for several years, but still there are no significant projects and subscribers are few in number. What does your Tricolor TV project need to be really successful and popular?**

The key issue in the Russian satellite CBB projects in recent years is that these projects used the Ku-band, which is very expensive.



The Ka-band better suits the needs of mass service development. Since it is much cheaper to rent suitable satellite resource in Ka-band, these price savings can be passed on to subscribers. Recent Ka-band satellites are much more energy-efficient than older ones that operate in the Ku-band. Moreover, Ka-band ground equipment is continuously improving. For instance, we are already capable of offering bandwidths of up to 40 and 12 Mbps in outbound and inbound channels, respectively. This is what we can really deem to be true broadband access. All of this leads us to believe that satellite CBB services in the Ka-band will be appreciated by the market. The only real major obstacle in our way is the lack of awareness. Consumers, particularly those who do not have other means of Internet access, simply are not informed about such services. According to my own experience, many subscribers still deem satellite communications services as expensive and exclusive, accessible only by government authorities and large corporations. This stereotype must be overcome.

At the dawn of the satellite CBB development in Russia, the cost of subscriber equipment could reach 40 thousand rubles and even more. Nowadays, the cost has dropped by 50%. What are the reasons for this decrease in price?

First of all, we continuously optimize the costs of production. Second, Russian operators realized that if they want to accelerate growth in their subscriber base, they need to lower the sign-up initial fee. So they have adopted a long-standing practice of the global mobile communication market: partially subsidize the subscriber equipment and compensate the corresponding expenses with monthly subscription fees.

For many years, manufacturers have been assuring us that significant decrease of the subscriber equipment costs is only possible if there are huge sales volumes. But the high cost of equipment hampers an increase in demand. Can we hope that weakening of the ruble and difficult economical conditions will help the Russian market break this vicious circle?

The price of subscriber equipment necessary for satellite CBB has already fallen to the point where cost is no longer a factor that determines people's decision to subscribe to the service. Most people who have no alternative for Internet access can afford it. The equipment will continue to become more affordable, however it will never be as cheap as wired CBB devices, such as cable or DSL modems.

What channels does Gilat use to distribute the products in Russia?

To operate in the mass market, we need a smoothly running distribution system. That's why we collaborate with NoLimit Electronics in Russia. This company possesses a huge dealership network, and its partners are capable of acquiring new subscribers throughout the country. In addition, together with one of our global manufacturing partners, we have established a plant to assemble the subscriber kit in Russia.

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This allows us to import the equipment in disassembled condition, drastically saving money on charges and accelerating our logistics chain. I would like to highlight that we are not involved in retail sales and do not supply the equipment directly to end users.

What production facilities does Gilat use to manufacture VSAT equipment?

We collaborate with Jabil as our global contracting manufacturer. Most components of Gilat's products are made in the plants of this company.

Jabil possesses production facilities around the world and decides where it will be most cost-effective to produce a particular type of equipment. In Russia, there is a significant Jabil plant in Tver, so it is possible that some Gilat products intended for the Russian market will be manufactured there. However, we do not force our partners to make such decisions. We have also discussed possibilities to produce Gilat equipment in Russia with other Russian manufacturers, such as GS Group.

What about service support for the Gilat equipment in Russia?

We have our own component warehouse in Russia. Our Moscow office team includes some technical personnel capable of providing consulting services and support. Of course, in most cases, defective VSAT terminals are sent to our Israel headquarters.

In addition, NoLimit Electronics allows us to organize small-scale local stock for our equipment within its dealership network. These storage facilities allow us to replace defective VSATs in a timely manner. After that, we can either try to repair them by means of components from our local stock, or send them to Israel. It is no secret that many service problems are caused by improper installation of satellite terminals, and this can be quite a complicated process. Gilat optimizes VSAT terminals to simplify their setup and installation. We even published a video on Youtube to show how a subscriber can install our VSAT on his own. In the middle of this year we will present our new terminal, SkyEdge II-c Scorpio, in Russia. All key components of this VSAT are integrated in a single box directly fixed on the antenna. This simplifies the installation and setup drastically.