

# MSS voice pricing: what price war?

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In June 2007, Thuraya reduced prices for its satellite phone service, in 81 out of 110 countries within its coverage area, to only \$0.39 per minute for calls to landlines and \$0.20 for calls between Thuraya handsets (its new ThurayaECO prepaid plan)<sup>1</sup>. This marks a sharp reduction from previous pricing of around \$1.25 for calls to landlines and \$0.85 per minute for calls between Thuraya phones, and comes in conjunction with aggressive price offers in April 2007 from Globalstar (which now offers unlimited usage for only \$49.99 per month in the US<sup>2</sup>) and Iridium (which has launched a limited term North American regional promotion with pricing as low as \$0.13 per minute for high users<sup>3</sup>). Inmarsat is planning to launch its handheld ISatPhone product in the Middle East and Asia in mid July, and has also stated its intention to be a price leader, with “the cheapest terminal on the market”<sup>4</sup>.

All of this activity has led some commentators to conclude that MSS voice pricing is now set for rapid and sustained reductions because MSS operators such as Thuraya now realize that their real competition is from terrestrial mobile operators<sup>5</sup>. However, this far from the case. While a few mobile users may be tempted to make international or roaming calls on their Thuraya phones, the difficulty of making calls indoors and in cities significantly limits the usefulness of MSS for most practical purposes. In fact, we consider recent reductions in pricing by Thuraya to be actually a preemptive strike intended to make it difficult for Inmarsat’s handheld service (which will be launched on July 16) to make inroads into many Thuraya markets. Notably Thuraya has not offered these price reductions in most of its key markets, including Afghanistan, Ethiopia, Iran, Iraq, Pakistan, Russia and Sudan, so the revenue it is giving up is relatively limited. However, international travelers visiting a range of countries in the region, who would otherwise be attracted to an Inmarsat handheld offering, may be tempted to take another look at Thuraya service, especially if Inmarsat’s voice service pricing is closer to the \$1 per minute rate indicated previously by the company. Similarly,

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<sup>1</sup> See [http://www.arabianbusiness.com/index.php?option=com\\_pressreleases&view=detail&pr\\_id=6228&Itemid=77](http://www.arabianbusiness.com/index.php?option=com_pressreleases&view=detail&pr_id=6228&Itemid=77) and <http://www.thuraya.com/content/prepaid.html#thurayaeco>

<sup>2</sup> See [http://www.globalstarusa.com/en/about/newsevents/press\\_display.php?pressId=89](http://www.globalstarusa.com/en/about/newsevents/press_display.php?pressId=89)

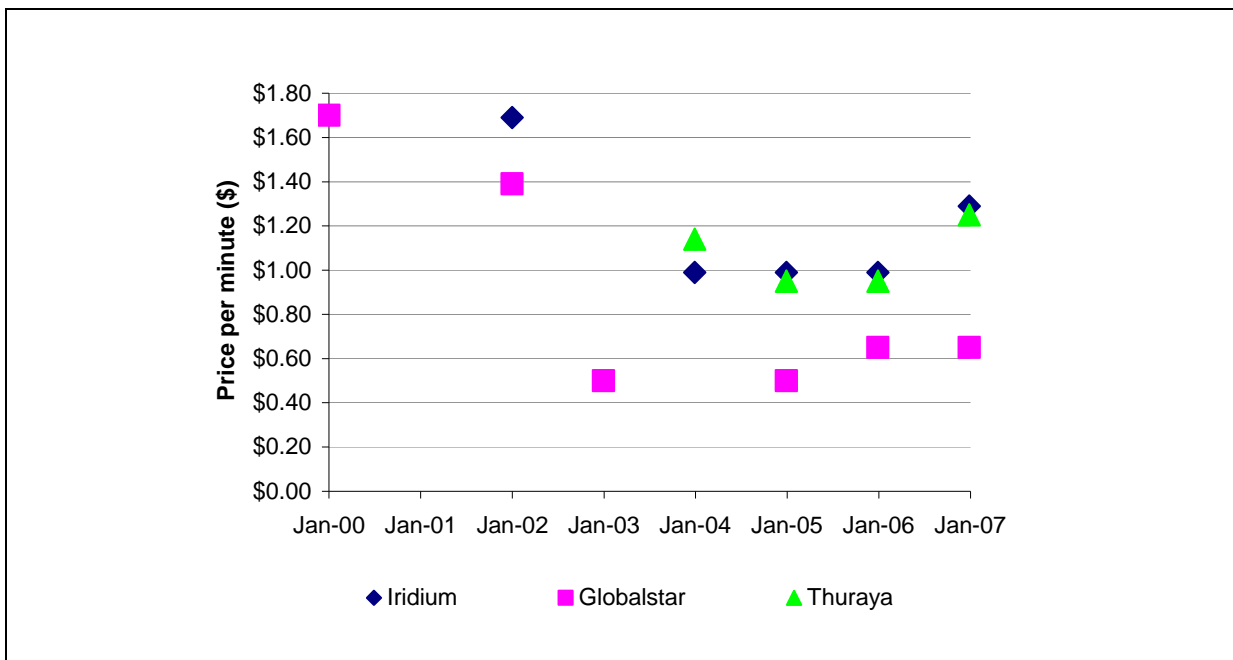
<sup>3</sup> See [http://iridium.mediaroom.com/index.php?s=press\\_releases&item=803](http://iridium.mediaroom.com/index.php?s=press_releases&item=803) and <http://www.mackaysatellite.com/pdf/IRIDIUMAIRTIMEoptions-Rev062007.pdf>

<sup>4</sup> Statements by Inmarsat management on Q1 2007 results call

<sup>5</sup> See comment from Claude Rousseau of NSR at <http://archive.gulfnews.com/articles/07/06/22/10134124.html>

Iridium’s price plan is a limited term offer, intended to tempt Globalstar customers to defect, and is unlikely to be sustained beyond this year. Globalstar’s price plan could reasonably be characterized as an attempt to hold onto customers with the promise of a better service to come in 2010. However, with service providers themselves discouraging users from buying Globalstar (for example Outfitter Satellite advises potential customers that “A customer operating a Globalstar phone in the lower 48 US states or southern Canada that only expects to make occasional brief calls may still find Globalstar service to be suitable for their application. However, customers needing to roam outside of the lower 48 US states or southern Canada or that need to make longer duration or frequent calls, should consider other satellite networks”<sup>6</sup>) then this will continue to be a challenge for the company.

Figure 1: Average price per minute for Iridium, Globalstar and Thuraya, 2001-2007 [Source: TMF Associates estimates<sup>7</sup>]



<sup>6</sup> See [http://www.outfittersatellite.com/adobe/globalstar\\_rates\\_adobe.pdf](http://www.outfittersatellite.com/adobe/globalstar_rates_adobe.pdf)

<sup>7</sup> Average price is calculated based on usage of 100 minutes per month of calls to the US via the lowest available price package, taken from Internet Archive records of Outfitter Satellite prices and operator press releases. Note that Globalstar pricing is taken from Globalstar North America, and thus represents mainly domestic calling, whereas Thuraya and Iridium pricing is for international calls

In reality, as shown in Figure 1, the average price charged per minute for Iridium, Globalstar and Thuraya voice services actually increased during 2006, as subscriber growth in the voice market slowed, and these operators sought to sustain their growth in revenues. In earlier years, the handheld MSS market expanded rapidly, with high levels of use in Iraq and Afghanistan in particular, and the \$1 per minute price point was seen as a key level below which subscriber interest in the service was significantly increased. With Thuraya having run out of new handsets to sell from late 2005 through the first eight months of 2006, and a decline in usage in the Middle East as new GSM networks in Afghanistan and Iraq were built out, both Thuraya and Iridium sought to maintain revenues by increasing their per minute rates.

Globalstar also found from 2002 onwards, that advertising very low price levels by offering very large bundles of minutes was extremely effective in attracting customers. The company was able to maintain a significantly higher average revenue per minute simply because customers overestimated their need for satellite service<sup>8</sup>. However, while expanding the size of these bundles, Globalstar was able to increase ARPU considerably by making the 500 minute per month bundle much more attractive to subscribers than the original 120 (later 150 minute) bundle.

What is the outlook for MSS voice pricing over the next 18 months? Much depends on whether Inmarsat decides to follow the lead of Thuraya's ECO price plan, in an attempt to capture market share. Despite statements by Inmarsat management that the target for its handheld service is Iridium and Globalstar, in reality Inmarsat's regional service on the I4F1 satellite is unlikely to capture many customers from either operator (since Iridium customers generally want global coverage and Globalstar has relatively few users in the Middle East, Central Asia and Africa). Instead, Inmarsat will have to compete predominantly with Thuraya, and therefore will have to at least consider whether aggressive pricing is necessary. Nevertheless, following Thuraya's pricing policy may set a bad precedent for Inmarsat's rollout of a near global service in 2009. We suspect that Inmarsat will seek a compromise, perhaps either offering bundles of minutes at a discount, or a range of country-specific pricing plans. With Inmarsat presumably somewhat anxious not to totally undermine its BGAN voice pricing levels of \$0.99 per minute, we doubt that Inmarsat's entrance will lead to a substantial decline in MSS pricing in the near term, although it will perhaps prompt a return to prices

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<sup>8</sup> Not least because subscriber expectations about their consumption of minutes are set by cellular usage, whereas MSS can only be used outdoors and handheld phones generally perform poorly in receiving calls, and so the overall level of traffic generated is much lower than on a cellular phone

(within the Inmarsat coverage area) closer to the average level of roughly \$1 per minute seen in the 2004-2005 timeframe.

Conversely, Globalstar's difficulties will likely force it to maintain a low cost unlimited usage package for the next few years. Whether this has an impact on Iridium pricing depends largely on whether Globalstar can improve its service quality to a level at which service providers feel comfortable in recommending it as a viable option. Only if Globalstar quality improves will Iridium feel the need to reduce its pricing significantly, outside the short term limited promotions it is conducting in North America at present.

Beyond the next 18 months, the main factor likely to impact MSS pricing is the launch of new satellites by ICO, TerreStar and MSV. All of these systems could well shake up regional pricing in North America considerably, if they follow through on their promises to offer integrated services with satellite pricing comparable to that on terrestrial networks. This depends on these systems either achieving mass market presence through a major partnership, or (perhaps more ominously) going through the same bankruptcy processes that allowed Iridium and Globalstar to reduce their prices substantially in the 1999-2002 timeframe. However, even in the event of any bankruptcies, we expect satellite operators (particularly Inmarsat) to seek to acquire any in-orbit satellite assets, precisely to avoid such market disruptions. Only if ICO, TerreStar and MSV meet with success can we therefore expect significant declines in MSS voice pricing to be forthcoming.

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