



WHY SOME AIRLINES ARE ADOPTING MB PACKAGING FOR INFLIGHT WIFI

News / Airlines, Personalities



Earlier this year, we put the question of “why” to Panasonic Avionics VP Global Communications Services David Bruner, and asked him to forecast what the future holds for IFC data packages and pricing models. Our full interview is below. Note it was originally published to RGN Premium in January so all equipage and airline contract figures have moved to the right (Panasonic announced its 800th Ku connectivity install last month).

QUESTION: Is airberlin the first airline customer of PAC to select an MB package for Ku connectivity service (outside of the Emirates 600MB for a token \$1 deal)?

ANSWER: No... And one clarification, airberlin is a retail customer for Panasonic. We determine the pricing and service packages for them. At present, we serve as retail provider for about half of our customers and the other half are wholesale in one fashion or another with multiple ISP partners.

Panasonic’s David Bruner

We have a total of 52 airlines under contract. Today, there are already 31 airlines in service with our broadband connectivity service. A large number of additional aircraft will come into service in the next 12 months, and we are anticipating that at the end of next year, 80% or more will be under some kind of a MB model.

We’re doing these MB packages across the board for airlines where we are the retail partner, but it

takes time to implement it, time to set it up, and time to migrate from the current package to this business model. So you'll see more and more of these types of programs come online in 2015.

To explain our rationale, it's not a direction we anticipated when we entered this business. Over time, however, we've learned that when you tell passengers 'you've got unlimited use,' you begin to see abusers or "bandwidth hogs." These few people consume a massive amount of bandwidth and impact the experience for everyone. These users are very smart, and they continue to evolve over time. So as fast as we can close doors, they open new ones and bounce around new policies and blocked services.

In looking at different solutions, there are some legitimate services we could block to limit abusers, but that runs counter to our vision for in-flight connectivity. We believe that if you want to stream, you should be able to do that, but let's make it fair so that other users aren't subsidizing your heavy consumption of data.

Many IFC service providers today block video. So even if you're a passenger on CNN's site as an example, it's blocked because it has an embedded video — even though it's highly compressed and doesn't require much bandwidth. The provider looks at the TCP protocol, realizes that it's video and blocks the page. At Panasonic, we believe that destroys the experience.

We also looked beyond our industry at other markets. For example, we looked at one US-based mobile phone operator that allowed customers to reach a non-specific ceiling, at which their service would radically slow down. The feedback from customers was terrible. Obviously, we don't want to do that to our airline partners' passengers. Instead, we decided to introduce this new scheme, and let passengers decide what they want to do with their bandwidth.

So we're introducing the MB model, which is similar to the business model that is used by virtually every mobile phone operator in the world. We prefer this pricing plan over having passengers reach a non-specific ceiling where the service starts to slow down.

And we believe that MB packages allow us to now provide the best possible service to everybody all the time. If a passenger wants to use it up quickly, then they have an option to purchase more data. If a passenger goes slower, they will have a longer session. Whatever they decide, they are in control of their experience, and, most importantly, they are not impacted by what the person next to them chooses to do with their own connected device.

QUESTION: How do you define the retail model versus wholesale from where you sit?

ANSWER: Whether we go retail or wholesale is solely based on each airline's unique strategy. We started by providing Panasonic's service to airlines with Deutsche Telekom's T-Mobile serving as the ISP. With T-Mobile, whether an airline chooses a wholesale or retail model makes no difference; they'll provide the ISP services for a fee. In some cases, Panasonic does this as well.

Still, many airlines want to control everything that goes on inside their aircraft. They want ultimate flexibility to support programs such as having one price on a Monday or another price on a Saturday. So today, we give airlines the tools to manage their own retail experience, which can be priced or free. We also provide the mechanisms to change that in real time. Now, four out of five airlines are going wholesale instead of retail. Airlines want to use us, and they want to buy wholesale capacity from us and deliver it in a couple different ways — be that based on speed or data amount and they want to determine who gets it and what they charge for it. They want that control, and we just have to adapt.

Today we've got all the resources to give airlines ultimate flexibility to adopt the wholesale approach, but it has been a substantial change in our business model. We're confident that moving forward, you won't have single digit users at higher than normal prices. What you'll see instead is subsidized service at a significant cost to airlines because passengers are telling them, 'Wi-Fi is one of the most important things I want on board the airplane.'

QUESTION: Will the launch of High Throughput Satellites (HTS) impact whether or not MB packages are offered?

ANSWER: This approach is really not affected by HTS. With HTS, we're focused on driving cost down per megabyte. That said, I think the idea of making the person consuming the most pay the most – even if the amount they're paying per MB is lower and lower over time – brings a certain fairness to the cabin. Many hotels offer a level of free service and a paid premium service for those who need it. I anticipate that airlines will also start to play with this business model and try to distinguish their service.

A number of airlines who today have paid service are planning to go to some level of free of charge, as I mentioned at FTE Global in Las Vegas. I didn't even know then what Emirates was planning at the time (free and nearly free Wi-Fi for passengers), but I expect some radical changes in the next 24 months. We may end up with a lot of people on free service. We may see airlines offer Wi-Fi for free to those in first or business class or to those who are a platinum or gold frequent flyer. That's a wholesale relationship where instead of low volume premium, it's now high volume but lower revenue per megabyte

We're no longer a boutique business [in IFC]; we're now looking at providing connectivity to a lot of customers, with a lot of usage per airplane. That changes the dynamic significantly, which is great for us because it allows us to get better pricing for our customers. As Panasonic, we don't need to make a lot of money in Wi-Fi. We can serve our IFEC customers, maintain good relationships, and deliver a service that's good for all segments of our business.

In the past, we never had the kind of aggregate purchasing power that we enjoy today for Ku. It's driven by a lot of airplanes on our network and a lot of bandwidth consumption. A total 52 airlines and 2,200 aircraft are committed, and depending on aircraft options, it could be a lot more.

QUESTION: How can you drive down the costs associated with delivering Ku to airlines for both yourselves and your customers?

ANSWER: We're continuing to optimize the design of HTS satellites and the delivery process in order to drive cost down as capacity goes up. Looking down the line, we hope to also drive down the cost of antennas. So there are a number of variables you're trying to balance in terms of operating cost – capacity bandwidth, price and impact to the aircraft, — and we're all under tremendous pressure to keep optimizing that.

There are probably eight or nine major satellite service providers in the world, and we're on a first name basis with the leaders in all those corporations. There is some amazing creativity out there and we try to harness that. We don't just send out requirements to the satellite providers, and wait to see what comes back. We have a team of satellite engineers that know exactly what is state-of-the-art, and we drive what we want to happen in the next generation of solutions. That requires huge investment across multiple disciplines. You've got to be smart, invest, look into the future, be a bit crazy, and roll out difficult, costly services like global television and other solutions that change the marketplace.

The future is not just about HTS – it's also about XTS or extreme throughput satellites, which are really HTS on steroids. There are at least three areas of the world where there is significant, really high air transport traffic and aircraft with high demand. In those markets – maybe not today but in a couple years – demand for bandwidth will drive even more capacity, and we'll be able to deliver. After all, the more you provide the better the economics.

As we go HTS, we'll drop off older, less efficient capacity, and replace it. We're also moving into bespoke solutions to Panasonic [with satellite operators] mainly because we're buying all the capacity we could use for our systems, making it harder for people to draft along behind us. We couldn't do those things if we didn't have the demand to support it. In certain spots today, we already buy up everything available. But as we transition into a newer world where all of a certain kind of capacity on a satellite will be only for us, we will own it, and another aero provider won't be able to come in and copy the strategy because these are exclusive arrangements. As we continue to contract for capacity in advance of satellite launches, Panasonic leads the conversation, saying, 'This is what we want and will pay for. Not, 'what capacity do you have spare, and I'll buy it if I like it'. You can't do that when you're little. It's expensive, but we're committed for the long term. These things take resources and capacity commitments sometimes before customer decisions, so it's a huge gamble.

QUESTION: But one that's paying off now, yes?

ANSWER: This is a good long-term business. We're not in it to drive up share price and exercise our options, and it's very complementary to our IFE business. Some airlines brokered favorable pricing for Ku before it was even in service. Lufthansa was an early retail customer [which works with T-Mobile]. They saw the benefit of a reduction in price. But a price reduction may be reflected when a satellite goes into service.

Moving to HTS will bring a greater than 50% reduction in cost, but nearly all of our customers already had that built in. So our cost reductions led to their price reductions and we don't even have HTS in service until next year, but we bet on that. To use a fuel analogy, they're benefitting from the fact that we bought a whole bunch of fuel at a price that relative to today was a good price. Now the market could go lower or higher.

So airlines that got in early, have benefited. But it's not just about price. Intelsat IS-29e is a good example – we need massive capacity and we secured it on IS-29e for our customers (though the satellite hasn't launched). It's also about security for our customers. It's our obligation to make sure there is always capacity out there for them, which means you better have a good crystal ball. You're making judgments about the future so we examine every possible angle and scenario.

QUESTION: How will the Ku connectivity market evolve in the coming years?

ANSWER: We believe that the next couple of years will drive some shakeout. Even though the

business is growing the economics associated with the business still are not solid, which makes it a difficult business.

Our competitors have to buy capacity, and then, they need to add airplanes to their network. That drives losses. We also lose money doing this, but again it's part of a long-term investment in the business.

Our strategy allows us to grow and reach the economies of scale that ensure a successful in-flight connectivity business. On top of that, we've got more revenue-generating solutions and services with IFE, TV, and our Panasonic Technical Services team, which provides post-sale support to airlines. Who is best to talk to the airplane and provide services other than ourselves?

So you've got to have a really, really good long term vision as to where you're going, what you want to accomplish and great execution to go make that happen. Our customers are pretty pleased with where we're headed in a really, really tough business.

QUESTION: What inflight Wi-Fi model will reign supreme in the coming years?

ANSWER: Six years ago, I thought it would evolve like airport Wi-Fi, where you see a lot of airports go free. The more you see changes like that, the less attractive this business becomes to a big telco. It becomes more about us providing a private label to an airline, but that's our business. I don't know if that's the case for AT&T's decision, but one has to wonder if inflight connectivity will deliver what a telco will want from a brand experience? If you start to say 'we're not sure', it's not worth investing hundreds of millions of dollars.

The business models are constantly evolving. Airlines really want to give it to people for free. They realize some people can consume too much, and they want to manage that and preserve the passenger experience. So they're exploring how to make it fair [with MB packages], and maybe offer a premium service to someone who wants a more data-heavy experience. Others may choose to reward their best customers. I think you'll see some real creativity because, at the end of the day, airlines want to use Wi-Fi to differentiate their service, and some of them are very creative in the way they want to go about this.

26 SEPTEMBER 2015

SOURCE: RUNWAYGIRLSNETWORK

ARTICLE LINK:

<https://50skyshades.com/news/airlines/why-some-airlines-are-adopting-mb-packaging-for-inflight-wifi>