

A Lesson From a New Teacher

Today's young, first-time renters can't afford triple-play or even double-play packages. If they choose only one service, it will be Internet.

By Bryan Rader ■ *Bandwidth Consulting LLC*

I recently sat next to a mother and her 23-year-old daughter on a cross-country flight and enjoyed a conversation about young people and their thoughts on cable TV.

"I just finished college and am about to start as a brand-new teacher," the young woman said with a smile. "I'm moving into my own apartment this fall." Her mother beamed proudly.

"What will you do for cable TV and Internet?" I asked, doing industry research even at 38,000 feet.

"I don't know yet," she said. "Money is going to be very tight. I've never had to pay for these services before." With that, her mother groaned.

"Well, let's say your cable package will cost around \$50 a month with no frills, and your Internet package will be around \$45 a month," I began.

"Oh, well, then I would only be able to afford one or the other," she said. I watched her mentally calculating her new household budget.

"So, which would you subscribe to if you could pick only one?" I asked, as if I were asking her to select Coke or Pepsi in a blind taste test.

"No question, I would sign up for Internet," she said confidently. "I can get all the content I want for free on the Internet anyway, and I can always sign up for Amazon or Netflix or VUDU."

Now I was groaning. This young woman is the future of our industry. Right out of school, new job, moving into her own apartment – and she is already deciding *not* to buy the expanded basic package.

"What about when you make more money?" I asked. "Would you consider upgrading to a digital TV package?"

"Well, I guess so," she answered. "There are a lot of shows I like to watch,

especially on HBO. But right now, if I can't afford it, I can't subscribe to it."

MEETING YOUNG RENTERS' NEEDS

I agreed with my fellow-passenger. Many young apartment residents today want the benefits of the expanded services offered by cable operators but simply cannot afford a \$150 monthly cable bill. They aren't cord-cutting for other services but for economic reasons.

The strong apartment market isn't helping. Average rents are climbing fast. Eighty of the 82 MDU markets tracked by Reis Inc. experienced rental rate increases in second quarter 2011. Average rent is now \$1,052 a month, and MPF Research predicts it will increase another 5 percent or more this year.

That's an increase of more than \$50 a month. Ouch, there goes the cable bill!

Apartment supply has not yet increased to pick up the slack from this increased demand, and researchers predict only 40,000 new units will open in 2011. However, the number of new units will grow to 130,000 next year, inevitably reducing rents a bit as certain markets become more competitive. Reduced rents might begin to increase the disposable income available to spend on entertainment services.

In the meantime, what can cable operators do to improve penetration rates in the MDU market? The underpaid 20-somethings renting their first apartments cannot cover the cost of a good

double-play or triple-play package. (Can we ask our property owner clients to quit raising rents?)

A leading real estate expert told me at a recent conference, "Gone are the days of promoting triple-play services to new residents. We're back to double plays, as every young person has completely gone wireless." Another leading expert at the show attacked a different part of the bundle. "It's not about the TV anymore for younger residents," he pointed out. "They are broadband first, TV second. Phone is not even in the discussion."

I agree with both of them, and I think my airplane seatmate is right, too. This is why operators must begin with broadband, rather than simple basic or expanded basic cable packages, as the base of their product offerings. They must first secure the pipes to the apartments and then upsell residents to other great products and services, such as TV content.

It's a great way to market to the next generation of bootstrapping young customers. Operators need to think about how to package premium content filled with broadband-delivered TV channels and apps that can be sent to all types of Internet-connected devices, priced in an affordable, valuable way.

That's the model we'll need to win over this new prospective subscriber. The time to start preparing for this model is today – before this young teacher teaches all of us a lesson. ♦

About the Author

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