

Not Your Father's PCO Business

Facing an altered competitive landscape in their original stomping grounds, private cable operators are seeking new housing markets where their traditional strengths are more advantageous.

By Bryan Rader ■ *Bandwidth Consulting LLC*

For years, private cable operators (PCOs) all seemed to follow the same path. They picked a satellite TV platform – DISH Network or DIRECTV – and selected a large market or two in which to drop anchor. Often, these markets were major Sun Belt cities with a lot of fresh MDU communities.

This model worked well for a long time. Operators relied on exclusive retail agreements with no competition and good revenue sharing. As long as PCOs met the contractual performance standards, property owners were satisfied.

Over the past few years, things began to change. Some PCOs couldn't survive using the old formula. Others sold out to larger, newer PCOs or to franchise cable operators. In the traditional MDU space, there was little PCO growth.

What happened? How did the industry get here?

The original PCO business model lost its effectiveness for many reasons. At one time, PCOs were the only competition for franchise cable. Don't like Comcast or Time Warner Cable? No problem – sign up with a PCO. Want to customize a channel lineup for your resident profile? Great – work with a PCO. Property owners didn't have a choice other than the franchise guy, and many owners despised the franchise operators' "take it or leave it" approach to MDUs.

Over time, however, PCOs were no longer the only game in town. Verizon and AT&T showed up with commitments to overbuild roughly 50 million units across their territory and bring "real competition" to the market with FiOS and U-verse – and property owners liked them. Unfortunately, AT&T and Verizon seemed to like the same markets

PCOs did – Dallas, Atlanta, Houston, Miami and so forth. For many owners, this trend accelerated their interest in offering their communities a choice of providers rather than a single provider.

In fact, some apartment developers became so enamored with choice that they are planning to offer new residents a choice of TV service from a cable company, a telco provider *and* a satellite service. Their poor leasing agents have a lot of marketing materials to preview.

This makes the traditional market a losing proposition for PCOs. Some PCOs that flourished in the last growth cycle, five to 10 years ago, now find survival difficult. Consider this scenario: 30 percent of users choose the cable or telco provider, 10 percent take satellite service and another 30 percent simply don't want to pay for TV. That leaves just 30 percent of the market for the PCO.

Choice can be a good thing, and I've seen PCOs succeed in this environment. Most of the time, however, the model doesn't work for them.

To meet competition from telcos, franchise cable operators also improved their products over the last few years. PCOs now compete with 100 Mbps broadband, TV Everywhere services, 25,000 video-on-demand titles and dozens of new programming packages. They no longer win all the deals they used to win. The competition has simply become better.

A NEW MODEL

This forces PCOs to find new sectors that play to their strengths. The good news is that four new markets are opening up: senior housing, student housing, condominiums and hospitality.

The size of each of these markets is enormous. There are more than 1.5 million senior housing units in the United States, and the number is growing. There are more than 10 million student housing units, 7 million condo units and 5 million hotel rooms. Each market is plenty big enough for PCOs to target; combined, they are actually larger than PCOs' traditional stomping grounds. In addition, none of them places a high priority on provider choice.

Senior housing owners want customized bulk TV packages with limited set-top box hardware. Student housing seeks bulk broadband to the bed at various speeds with managed bandwidth and upgrade features, along with a good basic TV product. Condos want bulk agreements for digital TV and often for broadband (bulk broadband is a new, fast-growing opportunity). Hotels seek better products, more reliable service and new features. These are areas better suited for PCOs than other providers.

All four segments are ripe with potential. It's great to see the PCO business evolve into new areas of growth and opportunity. It's time to join the ride in this new automobile. ❖

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