What's in Your Grocery Cart?

The PCO market is filled with tempting acquisitions right now – but buyers should beware.

By Bryan Rader ■ *Bandwidth Consulting LLC*

Every so often, the private cable operator (PCO) industry enters a period in which numerous companies are on the market. This can happen for many reasons. Older companies may be looking to exit, other companies may be having difficulty raising enough funds to continue to grow, or providers may be seeking to sell noncore systems.

This is happening today. Across the United States, PCOs are beginning to sell a few systems, parts of their businesses or entire companies. A broker recently told me, "I don't ever remember so many cable systems on the market at one time. It's a great time to be a buyer. There is so much to choose from."

For an industry to go through periods of consolidation, dispositions or noncore sales is not uncommon. Companies such as GE have made a living buying and selling businesses to grow a market or get out of a sector. I believe this can be a good thing for a mature industry.

Some service providers on the block have been in business for more than a decade. Others grew into markets that don't fit their needs anymore. Some can't afford to upgrade their portfolios to current technologies. None of this means the industry isn't ripe with opportunity. It certainly is!

As some older companies exit, dozens of newer, entrepreneurial companies are just getting started. They may have different business plans, technologies, geographic footprints or market segments, but they're still in the same business.

BARGAIN HUNTING

The systems, portfolios and businesses on the market today present great opportunities for newer companies to bulk up. However, the new guys must be careful when they examine potential deals.

In the early 2000s, many PCOs that had grown aggressively during the period that led up to the dot-com era were overstretched and underfunded. They needed to get out, and they were selling every system. This created great opportunities for newer operators looking to grow.

My company was one of those newer operators. We looked at potential acquisitions as a great way to gain scale, but we also saw that some deals could bring us down if we were not careful. Ultimately, we ended up doing a handful of smaller deals, all in core markets, that added to our total revenue and overall efficiencies. We passed on many other deals.

If you're shopping at Costco, you may be tempted to throw every bargain into your grocery basket. Thirty-six rolls of toilet paper? Fifty cartons of eggs? Eighteen cases of Diet Coke? Sure, those will go well with these 500 snack bags of Cheez-Its.

When you get home, you may wonder whether all those bargains were necessary. If you don't need it, it's not a bargain.

Look at these PCO sellers closely and consider their markets, their potential and their current product mixes. A system won't run the same way it did under someone else's watch. Think about how it will fit into *your* grocery cart – I mean property portfolio.

Ask yourself: Does it fit my operating plan? Did I plan to be in these markets? Do I know these markets? Do they fit the culture of my company? Is this an area in which I can grow? Once I complete the acquisition, can I add new MDU communities in this market? Do I have clients, contacts or relationships in this market? Do I have trustworthy staff to manage the market? Are my products a good fit for this acquisition? Does it play to my strengths?

If your focus is generally on digital bulk communities and you are considering a deal that focuses on wireless broadband, tread carefully. For some companies, "shopping" isn't even the best approach. The organic section of the grocery store includes organic growth – in other words, finding, closing and building cable systems rather than acquiring them.

Happy New Year and best wishes for a very successful 2012. I hope your grocery cart will be filled with much success. ❖

About the Author

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