

A Virgin Market for PCOs

Too many private cable operators have written off low-income housing.

By Bryan Rader ■ *Bandwidth Consulting LLC*

Recently, the FCC and other agencies have pushed to drive broadband adoption rates in low- and moderate-income housing. Some experts believe that more than 35 million households in the United States do not have true high-speed broadband and that many of those households qualify as low income.

The same is true for cable TV: About 23 percent of households with annual incomes lower than \$35,000 do not subscribe to cable, compared with 6 percent for those with more than \$75,000. Isn't it a shame that so many families who want services can't afford them?

Some cable companies, such as Comcast and Time Warner, have launched efforts to offer products to underprivileged customers. In most cases, these products include low-speed broadband or a small number of cable channels for around \$10 a month. To qualify, a family must have a kid in a free school lunch program, not have been a customer in the past 90 days, not have an overdue account, not have a kid named Joe, not be a Yankees fan and so forth. A startlingly small number of people who qualify actually participate in these programs.

Everybody wants to target high-end customers. It's a love fest for the \$150-a-month, triple-play, buy-all-you-offer type of subscriber. Of course, competition at that level is fierce. Private cable operators (PCOs) aren't any different. They salivate over half-million-dollar condo high-rises on ritzy streets but skip right over low-income communities.

To be fair, many operators spent hundreds of thousands of dollars on new cable systems in low-income areas only to suffer from theft and vandalism. Others didn't feel comfortable sending techs after dark and called those systems

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“daylight properties.” When the numbers didn't add up, many PCOs went back to A- and B-grade communities.

I believe there are ways to target the low-income housing market today in a profitable, meaningful and respectful way. Technology innovation and a strong focus on broadband may make this easier now than in the past.

The market is huge! There are more than 1.3 million public housing units and more than 4.3 million subsidized units (Section 8 or other HUD-subsidized units), and another 3 to 5 million units are just one notch above this level. That's almost 10 million units in total. Doesn't anyone want to serve them?

Consider how the wireless phone companies analyzed this opportunity. AT&T and Verizon didn't think giving a \$500 phone to a low-income customer made sense, so they skipped right over this segment of the market. Virgin Mobile, a reseller of Sprint wireless service, saw an opportunity. It created a hip brand with a hip ad campaign and sold prepaid wireless services using a low-cost phone. It signed up Best Buy, Radio Shack, Wal-Mart and others to reach this audience. Today, Virgin Mobile has more than 6 million customers. Too bad for AT&T.

Cricket Wireless also offered a pre-

paid plan on a pay-as-you-go basis and signed up 7 million customers.

Richard Branson, founder of Virgin, explained his success by saying, “I think the key is that our consumers need flexibility, something we were able to provide them.” Well, PCOs can be flexible, too.

The “affordable market” is very prevalent in the MDU sector. Increasingly, these properties are managed by professional organizations that control theft, vandalism and crime. They also care about their residents, and they are looking for TV and Internet solutions that fit these customers' needs.

PCOs should revisit these markets. Consider developing affordable products with good broadband speeds and basic broadcast and light cable programming. To minimize risk, look for ways to offer prepaid plans or pay-as-you-go features with very little or no equipment required.

Look at new delivery options, such as wireless, that require little hardware. In addition, consider affordable bulk-rate plans that property owners might need to be competitive in these markets. These can be implemented without expensive set-top boxes or expensive modems at customer premises.

This is “virgin” territory for PCOs, and we can all learn a thing or two from such companies as Virgin Mobile. ❖

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