

State of the PCO Space

The traditional market for private cable operators isn't as favorable as in years past – but alert PCOs have identified new market segments that offer greater opportunities.

By Bryan Rader / *Bandwidth Consulting LLC*

Not so long ago, private cable operators (PCOs) viewed the MDU market as filled with exclusive opportunities in upscale, Sun Belt apartment communities owned by companies that wanted to move away from franchised cable operators. This environment helped give the market momentum for three decades. However, it quickly changed in the mid-2000s, when FiOS and U-verse brought new competition to the market and property owners switched from exclusive, no-choice deals to deals that offered residents a choice of providers. This meant PCOs would no longer be the only game in town; they could be the third horse fighting Big Cable and Big Telco.

During the Great Recession of 2008–2011, PCOs lost exclusive rights in many apartment communities, and their penetration rates declined rapidly. Both overbuilder competition and consumers' shift from traditional video services to streaming video put tremendous pressure on PCOs.

As a longtime board member for the Independent Multi-Family Communications Council (IMCC), I saw how hard the private cable industry was hit. Customer counts dropped, owners failed to sign or renew exclusive deals, and new competition emerged from well-capitalized players such as AT&T, who often built plant everywhere and asked forgiveness later. Where PCOs might fit into this new world became difficult to see.

Although DISH Network and DIRECTV provided great video solutions to private cable operators and offered strong support and commitment to the industry, growth became very difficult for PCOs. This led to a round of consolidation, in which weaker providers were sold to larger ones. Many of these deals were not good for the sellers.

Two to three years ago, the PCO market began growing again. Along came a host of new entrants with an emphasis on Internet. Many operators saw appealing niches, such as upscale condos, student housing or senior living facilities. All these segments favor bulk agreements – a PCO strong suit – and they all offer a strong demand (and need) for PCOs to fill and an opportunity for them to thrive.

PCOs started to develop again with a greater emphasis on operating their networks and less emphasis on building and selling them. Today, as many as 50 to 100 new PCOs are expanding in one of these market segments. Some provide video; almost all provide Internet service. They are all

customizing their packages to match the needs of each user profile.

Dozens of student housing developments with thousands of units are being built in the United States now. I estimate that PCOs are capturing 50 to 60 percent of this pie, using a blend of digital, high-definition video and wired broadband with wireless capabilities.

The senior housing market is growing rapidly. As large franchise cable companies go all-digital, senior-housing property owners are looking for ways to provide HDTV without set-top boxes, as well as for customized lineups for the senior audience. These have become attractive, easy deals for PCOs to capture and another fertile growth market.

The condo markets in such urban centers as Chicago and Miami have also created great opportunities for PCOs that can deliver gigabit speeds and very strong HD video packages.

All these areas create opportunities for private operators, and, for the first time in quite a while, the large cable companies are seeing PCOs as threats.

These new PCOs are smart. They are specialists with a disciplined approach to their geographic footprints, and their capital requirements are much, much lower than they were a decade ago. With a lower cost of entry, more entrepreneurs are entering this market. As one PCO told me, “You don't need to raise \$2 million to get into this business anymore, and you can get to cash flow positive fairly quickly.”

As a consultant who works in every region of the country and in all these MDU segments, I see a very bright future for PCOs. I think there will still be some stumbles, but there will be many more successes. I expect the next several years to be another golden age for PCOs.

Even though the good ol' exclusive days of upscale, Sun Belt apartments may be gone, there is a lot to like about the PCO business again. I applaud the new PCOs that are getting into this market and the property owners that support this market.

Ronald Reagan once asked, “Are you better off today than you were four years ago?” If you are in the PCO market, the answer is “Yes.” ❖

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