

# Case Study: A Course For Renewing An Industry

By Jerry Budge ■ *BDR Broadband*

Is private cable a viable business? How can operators make the most money on the operation of their systems? What business models work the best? What does it really cost to add advanced services to a property? Over the coming months, this series of articles is going to answer these questions. These answers are not ivory tower, corporate self-promotions, but rather first hand knowledge gained in the day-to-day operations of a fledgling private cable operator dealing with system upgrades, installations, right of entry extensions and trouble tickets. Four leading independent private cable oriented companies combined to form BDR Broadband: Blonder Tongue Laboratories, Priority Systems, Resident Technology Group and Telepro Communications. Each company brought a different strength to the table to form what all believed to be an excellent partnership.

Blonder Tongue has always been known for its technology in the cable television marketplace. Based on its extensive history of engineering and technology, BT provides the engineering and technical troubleshooting expertise. BT also contributed the leverage and financial backing that only a large public company could bring.

Priority Systems provides one half of the front line, the field service teams. Priority has managed the daily care and feeding for tens of thousands of subscribers in hundreds of systems. Priority's technicians run the daily routes dealing with installs, trouble tickets and the occasional person whose VCR still flashes 12:00.

Telepro is responsible for billing, staffing the call center, handling the dispatch of Priority's work, and the

entire behind the scenes reporting and tracking of the business. Telepro also has an extensive history of providing these services and currently supporting over 25,000 customers a month.

The greatest system in the world is worth little if the residents don't know how to subscribe to its services; service awareness and subscriber sales are two of the jobs of Resident Technology Group. RTG is responsible for creating and implementing marketing and sales campaigns to attract new subscribers. Additionally, RTG provides the bandwidth management and tier two and three support for BDR's high-speed data subscribers.

The initial BDR Broadband systems were the result of the acquisition of 21 Verizon private cable television systems in Texas, the majority located in the Dallas / Fort Worth metroplex. The systems covered a variety of demographics from C to A+ rated communities as well as different system architectures ranging from Direct Broadcast Satellite (DBS) to full Satellite Master Antenna Television (SMATV).

Community Rating	DBS w/Local Off Air	SMATV
A	4	
B	5	4
C	3	2
D	2	

The majority of the systems were designed using one basic business model, DirecTV with free local broadcast networks. Almost 70% of the systems purchased have functional distribution networks; this was a key factor in the acquisition, and an important part of the upgrade process.

BDR's mission statement is defined as, "Determine if a capital investment in a system to upgrade it to a multiple services platform will generate greater positive cash flow and profit from the subscriber lift and the horizontal linkage of additional service offerings."

In the following months we plan to present a variety of case studies documenting the results realized at different BDR systems each built and upgraded with different platforms. These case studies are going to present information comparing the same areas in each system allowing us to compare and contrast the capital, complexity and return on investment for each, including:

- Property Specifics: Property Demographics, Initial Service Platform, Setting Base Lines
- Financial: Cost of Upgrade, Revenue Lift or Loss, Return on Investment (ROI)
- Marketing: What was the best package for the property and why?
- Operations: What does it take to operate the system properly?

- Lessons: What key information was learned from the build / upgrade?

At the end of this series we will compare and contrast the different system architectures and business plans in order to make more informed decisions about what works best for each property.



Even new builds, such as this property, can offer many unique service challenges.

### Part One:

New Build – Trap & DBS – Installer Friendly.

### Property Specifics

The first system that we are going to look at is a new-build that is owned by one of the ownership groups being serviced by BDR. The system is located in a B+ demographic, located in northwestern Dallas, serving 288 passings. The property received its occupancy certificate at the beginning of August, 2003. The system offers a 55 channel, non-sports analog tier and a DirecTV (DTV) digital tier. The analog tier is controlled with negative traps, while the digital tier is diplexed to the customer's drop on an as needed basis. The analog tier does not require any set tops inside the customer home to provide services, but the DTV package does. During the design phase, we chose to deliver the DTV service via a fiber network from the satellite dish at the headend. This plan satisfied the owner's requirement for the system to be as unobtrusive as possible. BDR did not have an option to deploy a high speed data platform on the property

because the owner was providing data services via their own multimode fiber based Ethernet system. Two key elements in the success of this property are: making the property 'installer friendly' and the strength of the 'non-sports lineup.' These two ingredients are going to be looked at in more detail later in the article.

### Financial

Since this system was installed with the newly constructed apartment community, the system installation was as straightforward as any construction job could hope to be. The biggest challenge was matching the ever-changing apartment construction schedule. Calculating the actual ROI varies with the increasing number of new residents moving in as shown in the table on page 26.

Distribution labor was initially budgeted at about \$5,500 for this system;

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	Subscribers	Occupied	Passings	Percent of Occupied	Percent of Passings	ROI in Months
6 months	80	177	288	45%	28%	24
11 months	120	216	288	56%	42%	16

The breakdown of the capital to build the property as follows:

Headend Equipment	Headend Labor	Distribution Equipment	Distribution Labor	Fiber Labor	Total
\$19,421	\$750	\$15,896	\$1,600	\$2,160	\$39,827

however, the owner commissioned their contractor to lay the conduit, and pull all of the cable at the owner's expense. BDR provided the cable and performed all of the terminations, but a significant amount was saved with that labor contribution. The distribution total could have been decreased by about \$4,000 by providing one dish per every three buildings, but that would not have met the owner's request for an unobtrusive system. At the current penetration level with a net margin contribution per subscriber of \$20, the time frame to cover the cost to build is 23 months. At a penetration level of 65 percent of doors passed, the return is less than one year.

### Operations

Operationally the system is relatively easy to manage due to the lack of complexity. Since all tier changes are trap dependant, an installer is required for all upgrade, downgrade, install and uninstall work. The current routing has a technician on site three hours a day, two days a week to handle all DirecTV and analog cable work. This routing gives the owners and residents the responsiveness they expect from a quality provider.

The traditional trap system is one where each subscriber has a multiple of traps on their individual drop in order to provide the proper services. At a 92 percent occupancy, 65 percent analog cable penetration, 20 percent premium penetration and a 23 percent basic only penetration, this would equate to approximately 177 traps at approximately \$9.50 each or \$1,681.50 to build a traditional trap system. The

'Installer Friendly' architecture uses high-level tap outputs going through a trap to feed a splitter, thus providing multiple ports at the desired trapping level. When the installer needs to install or change the service level, they just move the drop from one pre-tiered splitter to another. This architecture eliminates the need to carry an inventory of traps on the truck, speeds future auditing, and saves 141 traps, or \$1,339.50 on the initial build.

point as low as possible is good for all parties. The operator is more likely to gain the occasional TV viewer as a subscriber where before, they would have been lost to the price pressure of supporting the sports programming. In our customer surveys, we have found that only about 20% of the subscribers really desire to view the sports only networks. The sports programming is included in the DirecTV package, which is available on the property so



Proper planning and design at the headend can save both time and money.

### Marketing

This "Non-Sports Lineup" was developed to catch subscribers who are not avid sports fans and are sensitive to price points. By having fewer channels in the analog tier, the majority of television viewers are given the channels they desire, without a high cable bill. Being able to keep the financial entry

the avid fan is not alienated. The cost of the analog tier may be better controlled by removing the sports programming, which accounts for much of the price increases in analog cable, and traditionally has increased 20 - 25 percent annually. BDR Broadband has found that the majority of residents prefer not to pay for  
*(continued on page 28)*

(continued from page 26)

sports programming in the extended basic tier.

### Lessons

An important lesson learned was that the operator must get involved with the property owner way BEFORE ground is ever broken. The site that was set aside for the headend was climate controlled and had enough electrical circuits for proper powering, but was far too small. The room that held the headend was also home to the security system, telephone switches, telephone cross connect, and the owner's data networking equipment. During our first conversations, the owner stated that they knew exactly what we required, and we didn't think to just confirm the assumptions. In hindsight, we should have provided a document that clearly stated our square footage and electrical requirements. This would have prevented a great deal of

additional effort on our part to make the electronics fit in a very limited space. Another interesting lesson was about working with "lease up" agents.

a small compensation package for the lease up staff in addition to the marketing materials that are required of a new property launch.

***"This architecture eliminates the need to carry an inventory of traps on the truck, speeds future auditing, and saves 141 traps, or \$1,339.50 on the initial build."***

A lease up agent's job is to fill the property as quickly as possible for the property owner or management, and they are highly compensated to do so. They will not promote your services unless the perspective resident asks about the services, or the operator compensates them. In future projects we will have

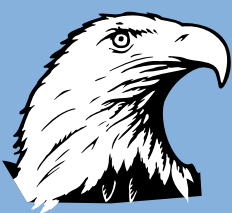
### Closing

The first property in the series was a new build with limited service offerings and limited revenue potential, but a decent profit can still be made on a smaller property like this. The downside to a new build property is that you need to be able to endure the occupancy ramp up time. This property stated emphatically many times that they would be 70 percent occupied at the end of four months, but it took almost 12 months. In the end, this property will produce about \$2,500 a month, net programming, to contribute to the cost of running the company. This will serve as our reference point for a traditional trapped video system without high speed data or telephone.

The next property that we are going to examine started out as a traditional SMATV system with no ancillary services, and has under gone several platform upgrades. We will start to address the issue of personal satellite dishes in the MDU environment and take a look at the addition of high speed data to the property. ■

### About the Author

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