

If You Build It, Will They Come?

Improved SMATV, Interdiction, DBS Overlay and Internet Services – But Marketing Needed

By Jerry Budge ■ *BDR Broadband*

In August, we took a detailed look at the installation and commercial success of a 55-channel non-sports analog cable system with a DirecTV digital tier, in a new 288-unit broadband-friendly MDU located in a B+ demographic in Northwestern Dallas. In November, we looked at an upgrade to a larger, existing system. This month we upgrade an existing property that had a very low take rate and limited service offerings. You will see that even a good upgrade is not enough without good marketing; the residents had been disappointed for too long.

These cases, with down-to-the-dollar financial details, come courtesy of BDR Broadband, a joint venture of Blonder Tongue Laboratories, Priority Systems, Resident Technology Group and Telepro Communications. BDR got its start by acquiring 21 private cable TV systems, mostly in the Dallas-Ft. Worth area, from Verizon. This property was one of the original acquisitions.

The financial information can easily be compared from case to case, allowing you to contrast the capital, complexity and return on investment for each. Data includes:

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

You can view the earlier case studies on line, at <http://bbpmag.com>.

Too many times we operators believe that if we build a better system and add more services, the subscribers will overwhelm us with their money. Unfortunately this is not this case as we found out on this upgrade project.

The property we discuss this month was part of the initial acquisition that was in serious need of an upgrade. This property had only a Satellite Master Antenna Television (SMATV) system with no other choices for digital or data services. We'll look first at the costs and expected benefits of upgrading existing service platforms and adding additional digital services, but that is not all. You will see that marketing all of the wonderful things that an upgraded system can do is equally important.

Property Specifics

This MDU would be considered a B+ property; it is located in north Dallas and has 360 passings. It had only an analog, traditional SMATV, 50-channel lineup with no digital tier. The analog block was controlled with negative traps, and did not require any set top boxes inside the customer home to provide services. Of these 50 channels, 6 were in a premium tier that required four different traps in order to set service levels. One out of every five apartments has a Direct Broadcast Satellite (DBS) dish either on the deck, patio, or bolted to the building itself.

Marketing

One of the main points in last month's case study was that the more

services you offer, the more subscribers you are going to have. This property had a decent amount of choices via the existing SMATV system, but there was certainly room for improvement. Our plan was to:

- Add the DirecTV (DTV) digital overlay
- Upgrade the distribution network to interdiction
- Change the SMATV lineup and upgrade the local channels
- Add a high speed data service

DTV Digital Overlay

The first step in implementing our 'non-sports' lineup was to build a DTV digital tier on the property for the residents who wanted to receive sports programming. Since the property had not had any digital offering for quite some time, there was an abundance of dishes on residents' patios. Building a DTV tier would allow us to combat the presence of the DBS dishes on the property.

We did not expect a large immediate lift in the subscriber count on the property once the digital tier was added, however. We've found that the real benefit to this tier becomes realized 15 months after turn-on because of churn. Potential customers who already have a dish up are not likely to take the dish down in favor of connecting to a different network. We are actively marketing them, but haven't received very high returns on the program. The payoff is coming in the form of property management's support for the new digital tier, with management 'steering' the customers to our

network as an alternative to putting up their own dish.

Distribution Upgrade

After the DTV Digital Overlay upgrade was completed, we immediately followed with an upgrade of the distribution network. The upgrade had two purposes. First it prepared the network for the addition of a highspeed cable modem system. Second, it replaced the existing, labor-intensive traditional trap system with a highly responsive inter-diction system.

The upgrade was a Video Mask Inter-diction (VMI) system that has provided complete remote control of the property by the back office. This platform offers channel-by-channel control of the SMATV lineup on a per-subscriber basis, without ever needing to dispatch a technician. The platform is also an immediate answer to the indecency debate that is currently being undertaken in Congress. This platform immediately complies with the National Cable Television Association’s mandate that the top ten MSO’s will offer the ability to remove individual channels on an as-requested basis by the subscriber. Promotions of premium services can be accomplished by mere keystrokes instead of the labor-intensive property sweep required by a traditional trapped system. We can now even market premium services to data-only subscribers.

SMATV Upgrade

We started by evaluating the existing SMATV lineup, looking for opportunities for improvement. We felt that the demographic of the residents was just right for our 70 channel ‘non-sports’ lineup. The new lineup would double the number of premium services available, and by removing the sports package, make the price point less volatile.

As I noted in November, we developed the non-sports lineup to catch subscribers who are not avid sports fans and who 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 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, the occasional viewer would have been lost to the price pressure of supporting the sports programming. In our customer surveys, we have found that only about 20 percent 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 the avid fan is not alienated.

Another opportunity for improvement was the quality of the local broadcast off-air channels. We decided to take advantage of the ‘local in local’ DTV offering. This dramatically improved the quality of the signals by changing from analog, off-air reception to digital, satellite reception. There is a small additional

DBS Digital Overlay

Hardware	Labor	Total	Projected Net Revenue Lift Per Month	Projected ROI
\$4,319	\$6,300	\$10,619	\$1,007	11 Months

cost for providing the local channels via DTV, but the improved reception is well worth the cost.

High Speed Data Upgrade

The last piece of the upgrade puzzle for this property was the addition of high-speed data (HSD) service via cable modems. Cable modems are a far superior platform over digital subscriber loop (DSL) for delivering data due to our local presence on the property and our improved ‘level of service’ marketing advantage. The Regional Bell Operating Companies (RBOCs) cannot provide DSL service at every property due to distance limitations inherent in the

Distribution Upgrade

Hardware	Labor	Total	Projected Net Revenue Lift Per Month	Projected ROI
\$56,300	\$5,622	\$61,922	\$2,535	24 Months

technology. The basic premise behind ‘level of service’ is to offer multiple service levels at different price points in order to pick up some of the price-sensitive customers, and to be able to charge high-usage customers for the bandwidth that they are using.

Financial

The final purchase price from Verizon totaled out to be \$575 per subscriber, so the cost of this property at the time of purchase was \$86,250. If nothing was ever done to combat the DBS presence on the property, or to add additional revenue-generating services, the time required to return the capital would be about 30 months. This rate is based upon keeping the same, low penetration rate on the property of about 40 percent of occupied units, with an occupancy rate of about 80 percent (about 20 percent of the units were vacant).

The ‘Projected Net Revenue Lift per Month’ was determined by taking the average number of installs over the last five months, multiplying by the DTV prepaid commission amount and adding the monthly revenue share of 25 subscribers with an average billing of \$54 a month. The penetration of 7 percent is exceptionally low compared to the 25 percent that we are experiencing on other similar systems. We are using 25 subscribers because this is our actual head count after 5 months. This gives us a Return on Investment period of 11 months for a system that is ramping up.

At first glance, the upgrade cost is prohibitively high. But it is important

to keep in mind that the platform is designed to minimize operational costs first, and generate additional revenues second. The platform will enable us to pick up a little more revenue from additional premium sales and additional data subs, but is better suited to helping us keep the money that we already have.

The hardware cost calculation is based around a per-port cost of \$125 before adding in the required network support for the platform. The "Projected Net Revenue Lift per Month" for the distribution upgrade was determined by taking the average number of installs, disconnects and premium tier changes of the prior 10 month period and multiplying by \$65, the nationwide average for a truck roll. This gives us a Return on Investment period of 24 months, without considering the ancillary factors that were mentioned above.

SMATV Upgrade

Hardware	Labor	Total	Projected Net Revenue Lift Per Month	Projected ROI
\$16,651	\$3,063	\$19,714	\$928	21 Months

The "Projected Net Revenue Lift per Month" for SMATV was determined by taking the average video penetration rate of 60 percent and applying it to the occupancy adjusted number of passings for a total of 173 subscribers. As noted above, the current penetration is about 40 percent or 115 subscribers, giving us a potential lift of 58 subscribers. The average net margin per subscriber is about \$16 for a total of \$928 per month. This gives us a Return on Investment period of 14 months.

Total Property Upgrade

Hardware	Labor	Total	Projected Net Revenue Lift Per Month	Projected ROI
\$89,182	\$16,985	\$106,167	\$5,460	19 Months

The "Projected Net Revenue Lift per Month" for data use was determined by taking the average data penetration rate

of 18% and applying it to the occupancy adjusted number of passings for a total of 51 subscribers. The average net margin per subscriber is \$19 for a total of \$990 per month. This gives us a Return on Investment period of 14 months. In the first two months of operation, we installed 22 customers.

When looking at the property and upgrade project as a whole, the average Return on Investment period is 19 months. In order to get a ten-year Right of Entry extension for the property we had to commit to service upgrades for the property. We gave a year and a half of profit to obtain eight and a half years worth. So for investing \$100,000, we have gained \$500,000 by the end of the contract.

Operations

Once all of the upgrades were completed, the operational aspects of the system

became easy to manage. The majority of the technician work on the property has been changed from expensive truck rolls to inexpensive keystrokes. Technicians are needed on property only to install cable modems and DBS receivers, or to respond to trouble tickets. The ability of the interdiction platform to close out the return path on a subscriber-by-subscriber basis enables the network to run with a minimal amount of ingress. Customer satisfaction should run at a high level due to the system's ability to offer

same-day installations of any analog cable services.

The platform can also be used as a

collection tool to help keep the delinquency rate as low as possible by staying on top of slow pays without having to deal with truck rolls for disconnects. It is this elimination of labor for marketing functions (Install, Disconnect, Tier Change, Premium Free-View Promotions) that enhances the net revenue generated by the property. Not only is there an immediate direct savings, but there is the unintended consequence of time savings. The time that is not spent running the basic marketing functions can be better spent on preventive maintenance to ensure the highest quality system possible.

Since the distribution plant was upgraded to VMI interdiction, there has been no additional work required to activate the return path. An interdiction upgrade does not have to be in place in order for HSD (high-speed data) to be deployed, but going through that upgrade has ensured that the return path is correctly conditioned to support the data. If we were not going to perform the interdiction upgrade, we still could provide HSD, but would have to survey the system for deficiencies in the return path at a cost of about \$300. Deficiencies would then need to be corrected on a time and materials basis. The most common issue that could be encountered is the lack of return path electronics in the line extenders or mini-bridgers. Most of the cost of the HSD upgrade is in the headend electronics.

BDR's preferred method of handling the modems is to sell them to the customer at time of install on a cost-plus basis. Modems could be rented to the customers, but we feel that the cost of managing the program, keeping track of inventory, and collecting modems on moveout would all outweigh any possible ROI.

Lessons

We have spent almost six months upgrading existing services, adding new services and making the property easier to operate and what have we gotten for our effort? We should have more subscribers and increased reve-

nue, but that is not the case. It appears that even if you build a technologically superior, multi-service system, that does not mean subscribers are going to beat down your door and force their hard-earned dollars on you.

In fact, our subscriber count has actually gone down but our revenue has stayed the same because we are getting more revenue out of the subscribers that we currently have. Our shortfall has been in the marketing of our new and expanded services. No residents really got interested enough in our offering to leave their existing offering – their own satellite dishes. We have to do a much better job of trying to pull folks back from the DBS dishes on their decks and go on the offensive to get them on board before they go over to the competition. We need to show and not just tell the residents that our data service is far superior to that of the phone company's DSL. In the long run we are sure that our penetration numbers are going to come up to where they should be due to the churn on the property. Like an eager young politician in an election year, we need to get out there and knock on doors to convert these new residents to subscribers. Because of the currently low take rate we have begun a direct marketing campaign that we expect will immediately have a positive effect on our penetration rate.

Closing

The third property in this series was an upgrade of an existing property that had a very low take rate and limited service offerings. We have upgraded the quality and quantity of the existing services, added digital and high-speed data, but have failed to add subscribers.

In the end this reinforces the fact that the best system in the world is worth nothing without effective marketing.

Once subscriber numbers start to come into line through a more aggressive marketing campaign, this property will contribute about \$5,400 a

month towards running the company.

The next property that we are going to examine started out as a traditional MATV with a DBS overlay and an insolvent data provider.

These conditions created unhappy subscribers and angry property owners. We will describe the long hard road to counteract the sins of the past

and how to lay the foundation of a new, fruitful relationship. ♦

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