

Offering Everything to Everyone

Fourth in a series: An upgrade to full SMATV, broadband data and interdigitation

By Jerry Budge ■ BDR Broadband

This month we look at a property that was in dire need of some changes. At time of purchase only 59 percent of the tenants subscribed to cable. This is the fourth article in our series. 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. In December we described an upgrade an existing property that had a very low take rate and limited service offerings.

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 month's property was part of the original acquisition.

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>.

This month's system is the most upscale we've discussed yet. It is located in an A demographic about 20 miles north of Dallas, serving 548 dwelling units. Before the upgrade, the system offered a traditional off-the-air headend to provide the local programming and a DirecTV (DTV) digital tier. There were existing fiber distribution networks and two-way enabled hard line distribution networks on the property. The fiber network distributed L-Band signals to each building, while the hardline network provided the local off-air and the data. The only provider control of the off-

air channels was a manual disconnect, while the digital tier was diplexed onto the customer's drop on an as-needed basis.

The broadband data service was being provided through a partnership with an insolvent data provider, who was responsible for all aspects of the offering from marketing through installation and network maintenance. Residents were extremely unhappy with the service. There were frequent service outages and the rate structure was higher than the prevailing market rate for the same service in the area. The property owner said disruptions in the data service were

affecting the property's ability to retain residents, and BDR was in serious jeopardy of losing the property and all of the other properties that belonged to this ownership group due to the inadequacies of its insolvent data partner. This situation had to be corrected immediately.

Quick Changes on the TV Side

We needed to get many different facets of the property turned around, and needed to do it fast. The game plan that we developed revolved around two main points; high quality options and a responsive customer service. First, we added a better SMATV lineup.

Life is all about choices and when we walked on to this property, the residents had only one, DTV. We decided to install a headend to carry our standard 70 channel SMATV lineup. This upgrade accomplished three goals:

- Gave the residents a choice of services to subscribe to.
- Improved the picture and sound quality of the local channels being provided by using digital satellite reception.
- Generated a larger revenue share for the property owner.

We experienced a penetration lift of 9 percent (50 new net subs out of 548 passings) within the first nine months because of the new SMATV lineup. There was also a gradual shift of subscribers from the DTV to the SMATV over time, as the chart shows.

Another key facet of the SMATV addition was the improvement of the signal quality on the property. Until this upgrade began, the only analog service the residents were familiar with was off-air. If you have been around this business for any amount of time, you are aware that off-air reception is one of the most difficult facets of being an operator. At this location, there was severe ghosting due to the location of the antenna, and the received signal levels were not optimal.

High Speed Data Takeover

Due to the insolvency of our data partner, we were forced to perform a hot swap from the existing data platform to one we constructed at the headend. The initial partner was moderately proficient in providing high-speed data service, but did not have enough experience with RF to be able to harden the return path and guarantee service.

The first step in this whole process was to go through the entire system and deal with any return path issues that needed attention. This is not a complicated process, but it is the most vital. No matter how much money and manpower you put in to creating a state-of-the-art headend, if you hand the signal off to a faulty distribution network, all of that time and money would have been better spent at the dog track!

There is definitely strong financial evidence to support the high-speed data (HSD) model. When we came on property we decided to make a few marketing changes to bring the pricing back into line with the marketplace. The first change was 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 the high usage customers for the bandwidth that they were using. The second change was to stop renting the modems so that the price point appeared even more attractive. On new installs, we are selling the modems just a few dollars above cost and covering them for 1 year. This greatly reduces our long-term liability in looking after antiquated modems.

At the request of the property owner and management, we added WiFi hotspots in the main clubhouse and the main pool facility of the property. In an effort to build good will and provide more value to the subscribers, we have included access to these hotspots for mid- and high level subscribers at no extra charge. Providing this service gives the owner an advantage in the marketplace by enabling it to advertise that it has WiFi hotspots on the property. This was one of many steps toward repairing the damage done by our initial data provider.

Interdiction Upgrade

The next step in turning the property around was to install an interdiction platform to immediately satisfy the property owner's desire to have a highly responsive service provider. The interdiction platform was not cheap, but the owner was VERY insistent about wanting a responsive provider and was considering removing BDR because of the inadequacies of the prior data provider. The interdiction platform offered three distinct benefits to BDR as an operator:

- It allowed us to provide an instant install of all CATV packages upon completion of paperwork in the leasing office. DTV and HSD would still require a truck roll for the installation because of the additional hardware required and

the needed customer training.

- It provided the ability to market several different a-la-carte premium service packages with complete flexibility and a revenue lift due to the additional services offered.
- BDR had the ability to control the return path of the entire network and market HSD to non-video subscribers.

The owner is quite pleased with the ease of operation and flexibility that we now have at the property.

Financial SMATV

Hardware	\$38,067
Labor	\$2,500
Total	\$40,567
Projected Net Revenue Lift Per Month	\$2,052
Projected ROI	20 Months

The largest cost of the SMATV upgrade was the electronics, but the most complications came from having to post wire several feeds up to the roof of the clubhouse in order to get signal to the headend. The "Projected Net Revenue Lift per Month" was determined by taking the average number of SMATV subscribers over the 10 month period shown in the chart and multiplying that by \$18, the average net contribution for the average SMATV subscriber. This gives us a Return On Investment period of just under 20 months.

Interdiction

Hardware	\$49,887
Labor	\$13,718
Total	\$63,605
Projected Net Revenue Lift Per Month	\$2,535
Projected ROI	25 Months

When looking at the economics of the interdiction upgrade, it is important to keep in mind the fact that the platform

is designed to minimize operational costs first, and to generate additional revenues second. 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. The platform will enable us to pick up a little more revenue from additional premium sales and additional data subscribers, but is better suited to helping us keep the money we already have. The hardware cost is based around a per-port cost of \$65 before adding in the required network support for the platform. The labor figure number is out of line on this project. We have found that we can now get the same system built for about 30 percent less than the number listed in the labor column. The "Projected Net Revenue Lift per Month" was determined by taking the average number of installs and disconnects of the 10 month period prior to the months listed in the chart and multiplying that by \$65, the nationwide average for a truck roll. This gives us a Return On Investment period of 25 months, without considering the ancillary factors that were mentioned above.

High Speed Data

Hardware	\$17,165
Labor	\$4,800
Total	\$21,965
Projected Net Revenue Lift Per Month	\$1,372
Projected ROI	16 Months

The hardware number listed in the financial section reflects the cost of reimbursing the prior HSD provider for all of the modems that were already installed. We purchased new modems and gave them to the prior HSD provider in exchange for the units that were already installed in the subscriber's homes. This saved us about \$4,000 in labor cost and was the least intrusive to the customers. The "Projected Net Revenue Lift per

Month" was determined by taking the average number of data subscribers over the prior 10 month period and multiplying that by \$14, the average net profit per subscriber. This gives us a Return On Investment period of 16 months.

Owner's Revenue Share

	Average Monthly Bill	BDR's Revenue Share %	BDR's Revenue Share \$	Owner's Revenue Share %	Owner's Revenue Share \$
BDR Locals	\$11.00	100%	\$11.00	8%	\$0.88
DirecTV	\$44.00	15%	\$6.60	8%	\$0.53
BDR SMATV	\$40.00	100%	\$40.00	8%	\$3.20
3rd Party HSD	\$40.00	10%	\$4.00	6%	\$0.24
BDR HSD	\$40.00	100%	\$40.00	6%	\$2.40

How services are billed greatly affects how much the property owner gets paid in a revenue share. The current revenue sharing model has BDR paying the owner a percentage of revenue on the monthly recurring revenue that BDR receives from DTV. For example, if the average DTV subscriber bill is \$44, our revenue share might be 15 percent, or \$6.60. BDR then pays the property owner a revenue share of say 8 percent, \$0.53, plus \$0.88 for the BDR Locals, or only 2.5 percent of the total being billed to the resident. When BDR provides the SMATV signals, our average billing to the customer is \$40 for the average analog package, thus providing the owner with a \$3.20 per subscriber revenue share instead of \$1.41, for an increase of over 100 percent. The same principles apply to the data as well. By bringing the HSD in house and away from a third party provider, we have increased the owner's revenue share from \$0.24 to \$2.40, for an increase of 1000 percent.

Operations

As was mentioned in the Marketing section earlier in the article, interdiction has brought a lot of operational simplicity to the property. On our basic, extended basic and premium services, we are offering a same-day installation to all residents who fax in a completed contract from the manager's office. We still

need to schedule DTV and HSD installs because of our need to enter the apartment, but at least the residents have some services immediately. It has been very nice having installations reduced to key-strokes from what had been truck rolls. There is the immediate cost savings by not having a truck roll, but this has also

freed up technicians to work on preventative maintenance in the system. We are seeing that our return path is exceptionally clean on the property. This can be attributed directly to two factors:

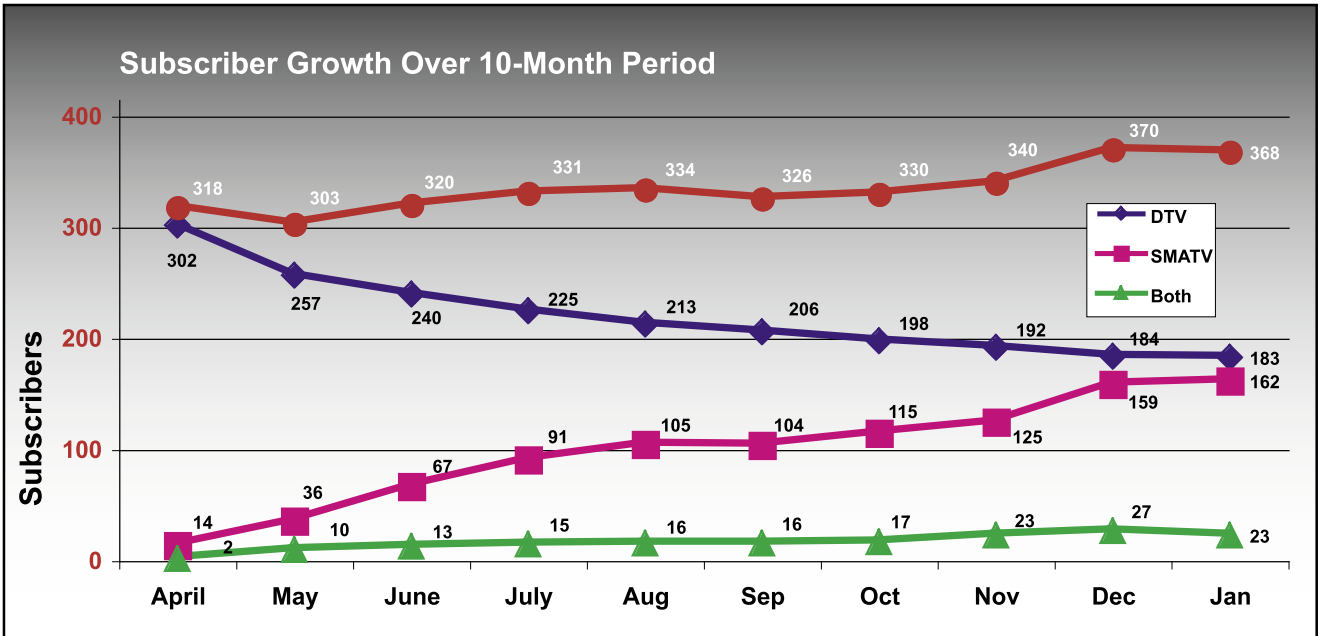
- The technicians are taking advantage of the additional time for preventative maintenance.
- The interdiction system can remotely shut off the return path, thus eliminating virtually all of the ingress.

At this time there is no doubt in our minds that this is one of the most customer-oriented properties we have. The current routing has a technician on site two hours a day, five days a week to handle all DirecTV and HSD work. This routing gives the owners and residents the responsiveness they expect from a quality provider.

Lessons

One of the most difficult aspects of this upgrade was the hot swap of the HSD system from a bad provider to our system. Before our HSD network was ever turned on, we had to build and test the platform without interfering with the existing system. This meant that all hardware had to be in place long before we were ready to install it, just to make sure that one item was not on back-order.

Another challenge was dealing with the 'wild west' mentality of the T-1 pro-



Total subscribers rose 16 percent in the first 10 months of operation with DTV falling as residents responded to the improved SMATV offerings.

viders. This appears to be the only industry that cannot guarantee an install or installed-by date. It also seems that the T-1 business works in a best effort environment that allows it to deliver as much bandwidth as it can. If we are lucky, that is enough to meet our order. This made targeting the hot swap date a real challenge. But when that date finally came things went fairly well, and I

will credit that to the installers and technicians who were on the property. We had the full staff on the property from 8 AM to 9 PM two days in a row in order to get all of the subscribers switched over and logged into our system. Bringing the data under control by building our own system and taking full ownership was one of the best things that we have done as a company.

In Summary

The fourth property in this series was an upgrade of an existing property that was in a distressed state due to an inadequate service partner. BDR was in danger of losing the property because the ownership group was being overrun with angry residents complaining about the data provider and the limited choices they had.

In order to turn this property around, we had to upgrade the quality and the quantity of the existing services, add SMATV channels and take ownership of the high speed data system. The upgraded property now produces about \$6,000 a month toward running the company. Because of the "Instant On" capabilities of the interdiction platform and the hard work of our staff, we have been able to convert a property owner that was ready to throw us off the property into one that has just given us another 1,300-door property to build. ♦

About The Author

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COMPANIES TO WATCH IN 2005

Top finalists will be announced in the upcoming *April Issue*.

A **Company to Watch** is an organization with an extraordinary impact on the broadband marketplace and the delivery of voice, video, data and other services. Top companies will be those our judges foresee having a major impact serving **residential properties**, including apartments and other multifamily dwellings, private developments, and planned communities . . . the **municipal segment** . . . and **commercial buildings** (offices, hotels, hospitals, etc.).

Nominating letters should be up to approximately 500 words in length and contain complete contact information, including website and phone number.

Email nominations to nancym@broadbandproperties.com

Deadline: February 18, 2005