

What is The Best Measuring Stick?

Other measurements have their place, but happiness is positive cash flow!

By Bryan Rader ■ *Media Works*

How does a private cable operator (PCO) measure success? Do you measure your progress in this business based on your company size? Do you measure it based on number of units passed, total subscribers, revenue-generating units (RGUs), billing equivalents, or backlog units under contract?

Over the years, I have met with PCO executives at many industry conferences. And invariably, the conversation always ends up with a question about “how’s business?” This question is most digestible when it comes after discussions on spouses, kids, golf games and favorite football teams.

Answers vary on how each PCO measures success. The answer to “how’s business” can be centered around many different measuring sticks. Some operators may say “we now have 20,000 units under contract,” or “I am constructing over 5,000 new units right now.”

Other PCOs may talk about total subscribers, typically referring to their basic sub count. “Well, I’ve got 7,000 total customers as of last month, and we will surpass 10,000 by next year.”

Yet, now a more common measuring stick is becoming revenue-generating units (RGUs), which includes your total number of video plus voice plus data customers. I’ve also seen some companies call this “total connections.” This number may give you an idea of how many products a company has sold, but not total customers.

All of these measuring sticks will tell you something about a PCO’s business. The company that measures with units

under contract or build-out expectations likely has very few subscribers and no positive cash flow.

The PCO focused on backlog is probably saying he needs capital to grow his business from its current size. If the “how’s business” answer settles on total subscribers, the PCO may only be offering a single-play video solution and has not yet expanded into broadband. An RGU answer suggests a more mature operation that offers multiple services.

I know, because I have used all of these answers at one time or another.

All of these measuring sticks are fine for giving someone a flavor of the size (or the potential size) of your company. But the choice of measurement sure paints a different picture about each operator.

Just last week I met briefly with two different operators who had completely different “how’s business” responses. One said “we have 5,000 high-end bulk customers on fifteen properties in one market with video and data.” The other one said, “we just surpassed 60,000 doors under contract and are growing like a weed.” Which one do you think is profitable?

Cash Flow Is Best

At the end of the day, good measuring sticks are cash flow, net income, or EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization). Size, number of units, backlog, build-out, etc. does not oftentimes equate to positive net income or cash flow. That’s ok if your business plan is quickly sign-up-and-sell. But for the rest of us, the best measuring stick of all is cash flow.

You can sometimes garner something about a PCO’s cash flow based on its total customers, or RGUs, but once again, large numbers don’t always mean successful net income.

I think every PCO is in growth mode, or believes it is in a growth mode. During this phase, operators use a variety of measuring sticks to express “success.” But the best way to stabilize your business is to obtain a positive net income as soon as possible. This enhances your attractiveness for new funding rounds, or other expansion plans, or even exit strategies.

Number of systems, subs, launches, billable units, etc. are all nice yardsticks. But the one I like best for measuring success is positive net income, regardless of the size of the company. Units, doors, passings under contract are meaningless if there is a huge loss at the end of each month.

And coming from someone who has used all of these measurement techniques over the years as we were growing the business, reaching positive sustainable net income is the ultimate definition of success for us.

So, how’s business? ♦

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