

The Best Route for Newcomers

Cable operators: Concentrate your markets, your technology, and your service options

By Bryan Rader ■ *MediaWorks*

I admire JetBlue. It is a fairly new airline that began operations in 2000 and has grown to serve 30 cities with 68 aircraft in a short period of time. JetBlue won the Condé Nast Traveler Readers' Choice award for Best Domestic Airline in 2004.

JetBlue launched a new brand to compete in a very mature industry beset by all kinds of financial and performance problems: Unprofitable routes, expensive and aging fleets, heavy debt loads, shrinking passenger counts, and disgruntled employees. JetBlue's management team and investors felt they could learn from the mistakes of everyone else in the business (United, American, Delta) and write a business model that would not lead to the same fiscal problems of the Big Three. They also took ideas from successful airlines such as AirTran and Southwest.

JetBlue brought many new features to the market, such as satellite TV, all-leather seats, 100 percent e-ticketing, bulletproof cockpit doors and security cameras in the passenger cabin to enhance safety.

JetBlue kept its business model simple. It only flies one type of aircraft, the Airbus A320, and it has added destinations based on demand from passengers and market opportunities.

Contrast this with its bigger competitors. United lost \$1.6 billion in 2004 alone while carrying 71 million passengers. That's more than \$22 lost for every passenger carried, but at least United improved; it lost \$2.8 billion in 2003. Delta Air Lines had 110 million passengers last year, and still lost \$2 billion in just one quarter.

The mature airline industry gives JetBlue many case studies on what to avoid. Too many types of aircraft. Too

many hubs. Too many unprofitable routes.

It's great to be a latecomer in a mature industry like this. Just like the private cable industry.

Over the past fifteen years, our industry has created its own long list of case study after case study from poor operators with similar issues such as unprofitable routes, too many hubs and too many types of aircraft.

Except in our case, it is being in too many markets, with unprofitable systems, using too many product delivery solutions.

The airline industry has its own newcomer in JetBlue. But private cable operators have many newcomers as well. I hear from newcomer start-ups on a regular basis. They all seem to want to get into the PCO business and target MDUs with a mix of video, voice and data services. I admire the newcomers to our industry for pushing ahead.

You can tell who will be the next United or Delta, or the next JetBlue, based on the business plan of the new PCO. There are three key points I look at in their growth strategy. You would think that the former failures in our industry would guide the "newbies" in the right direction. Some respect the past, but others don't.

1. Limit the geography. Depending on your capital structure, it may be best to select only one market. When MediaWorks first began, we called ourselves a regional provider, which was better than the other larger operators who were in 35 states, coast-to-coast, who claimed they could serve your whole portfolio. But we ended up in 15 markets in our region. Now we primarily cover just three markets.

2. Be profitable on all systems. Don't do deals just to grow the business. Each individual system should earn a positive income. JetBlue only targets profitable routes, leaving the money-losers to the big guys.

3. Build consistency into the business. In other words, create a similar process across the company in terms of technology used, system design, install procedures, operating policies, and scheduling. This will assist in gaining efficiencies as the organization grows. JetBlue's reliance on one type of aircraft is a good example of this.

Obviously, there are unexpected challenges in every business. Just as JetBlue has to deal with rising fuel costs, we have to worry about programming cost increases.

Newcomers should ask the PCO veterans about the "unexpected" issues, and how to adjust for them during the growth phase.

Business planning for PCO newcomers is very important. I suggest adopting the advice of other newcomers in mature industries (like JetBlue) and avoiding the pitfalls learned from the past in our market.

That is certainly the right route to take. ♦

About The Author

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