

# Fiber Dominates IMCC Annual Meeting

Members of the Independent Multi-Family Communications Council heard that they have to grow – and to find more bandwidth – to survive

By Steven S. Ross ■ *Editor-in-Chief*

**Missed IMCC  
in Chicago?**

Don't miss the next one – at our  
Broadband Summit in Dallas,  
September 10-12.

**F**iber dominated the spring annual meeting of the Independent Multi-Family Communications Council in Chicago this May. “Would anyone in the room deploy hard-line cable between buildings?” asked Bob Grosz of Pavlov Media. Only one person in an audience of more than 80 raised his hand to say yes.

They no longer have to rely on coax anyway. At the conference, DirecTV showed its new MFH3 MDU distribution system and Blonder-Tongue showed a fist-size single-node device for putting signals onto fiber. Foxcom is offering a similar product.

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Attendees also heard the latest news about the FCC’s war on exclusive contracts, and about marketing in an age where lucrative new services appear just as revenues for plain-vanilla video services weaken.

Why bother with fiber, a technology unfamiliar to many? Simple, said Grosz: “We have properties that are getting saturated with 45 Mbps distribution systems [to them] that even a few years ago we could handle with three or four

T1s” at 1.5 Mbps each. And the National Multi Housing Council (NMHC) is talking about “branding” buildings by bandwidth capability. The FTTH Council already has a provider certification program that badges properties offering fiber to the home.

The IMCC speaks for private cable operators (PCOs) and other companies that serve individual properties through contracts with the property owners rather than through a local video franchise.

For some, the advent of fiber creates competition that requires PCOs to grow, a view championed by Paul Savoldelli,

founder of a new PCO giant, DirecPath. He was not alone. Said Mark Scifres of Pavlov: “The guy who delivers the biggest pipe to the property wins, and the guy who maintains it, keeps it. We develop our own technology to bill and to shape traffic. We find good bundles from DirecTV and DISH [Network]. The guy with the \$3,000 HDTV needs an HD connection.”

Scifres added, “IPTV is coming fast and it will hold a whole new level of scale,

and IMCC members may not be ready for it. Short-term, there may be a windfall for AT&T. They win unless you own [or have access to unused] “dark” fiber – AT&T has no headends at the property at all and Google has been buying dark fiber all across the country. We’ve been scaling up every year and we just went through a merger. It’s the hardest thing we’ve done and we have to do more of it.” Pavlov Media was started in 1992 out of a dorm room. It now operates in 29 states, serving 55,000 data customers.

Scifres said that PCOs, to control costs and assure access, may “have to own our own infrastructure between cities, perhaps to become CLECs negotiating for dark fiber, to get data to a property in a quantity that we haven’t talked about yet. Internet 2 is not too far away. Will it destroy cable with 40 Gbps from Mexico to Maine?”

Several attendees noted that IPTV allows easier injection of local content and advertising, more interactivity, special services such as security, telemedicine, “and a watch on your favorite exercise machine down in the health club.”

For others, fiber is just a better way of doing things. “Pull fiber; the costs are close to copper anyway,” said Dominic Ruggiero of Multicom. Shawn Lucas of dLink noted that there are many ways to get to the high in-building bandwidth that fiber promises, without running fiber to all units right away. “Bring fiber to the basement and then distribute with GigE [gigabit Ethernet] on cat6

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## PRIVATE CABLE OPERATORS

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[Ethernet] cable,” he said.

Richard Holtz of InfiniSys Electronic Architects offered another nugget on costs: “MDU deployments for Verizon are cheaper by far than deployments for [single-family],” he said, because one ONT can serve many dwelling units. “You’d be amazed how cheap the cost is per family actually served.”

Holtz wouldn’t give details, but others noted that with only a 25 percent take

an MDU-based viewer might have. The latest MDU distribution system from DirecTV has tuners in the headend, basically open channels to the satellites. All users in the building watching the same program share a single tuner.

Between builds for Verizon’s FiOS and AT&T’s U-verse, “We have 11,000 units in design” for fiber, Holtz said. “The owners get it.” Holtz added that “the technology is not difficult but it

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rate, Verizon would be spending less than \$1,200 for the ONT and customer premises network installation. Each additional customer on the same ONT would cost less than \$500 on average for networking, so four families could be served for less than \$3,000 including some ONT work, or less than \$750 each. That’s half the cost of serving a single-family home requiring its own ONT.

Richard Tatem of DirecTV agreed. “Verizon has a very solid solution. Fiber-to-the-home is a solid infrastructure for any IPTV [deployment]. Comcast and other cable companies using switched video will move to IPTV in 10 years. It will take them that long because they don’t think they have a bandwidth problem.” Holtz noted that AT&T is close to being in the same boat “because AT&T did not believe that HDTV would catch on as fast as it has.”

Inexpensive HDTV sets have pushed customer adoption faster than expected; AT&T is seeing more than 1.7 HD sets per household in its deployments, while it had expected less than 1.2 sets per household.

Nevertheless, DirecTV’s satellite feed to an MDU can total the equivalent of 3 Gbps per household, suggesting what single-family homes might be demanding soon, and what advantage

takes engineering. You can’t do seat of the pants.”

Holtz called Verizon “the biggest challenge, because FiOS is best technology run out [deployed] en masse,” but insisted that “Verizon is out-marketing you, not out-teching you.”

In fact, Holtz said, “the FiOS crest helps validate us as PCOs, and that [unreliable, bandwidth-blocking coax] daisy chains and so forth are things of the past.”

### Marketing

Attendees were keenly aware of the marketing clout wielded by major franchise cable companies and now by RBOCs getting into video. But most were used to the pressure. Said Willy Pirtle of Shentel Converged Services: “Our rule of thumb is one month’s service for our marketing cost. In some cases an 80-unit property can be as profitable as a bigger one. If you have 1,500 units within an hour’s drive time it doesn’t matter if you serve a 300-unit building.”

IMCC president and BBP columnist Bryan Rader, now an industry consultant, said, “You need to understand your niche, stay within it, and be able to scale.... We can’t blame Verizon; we have to be proactive, not reactive.” He also asked a key question: “What can



**Bryan Rader (standing, far right) and Paul Savoldelli of DirecPath (who purchased MediaWorks from Bryan late last year) make their points on the opening panel. Other panelists, left to right: Mark Scifres of Pavlov Media, Dan Terheggen of CSS, and Willy Pirtle of Shentel.**



**Left to right, Scott Wilke of Sky Pilot, Mike Rosendale of Motorola, Dom Ruggiero of Multicom, Shawn Lucas of dLink, and Richard Tatem of DirecTV talk about technology. IMCC chief Bill Burhop (standing) introduces the session.**



**Full house at IMCC spring meeting.**



**Blonder-Tongue’s new compact fiber node. The heavy aluminum housing soaks up the heat.**



**AMT distributes ONTs and OLTs now – just as it does coax products.**



**Dale Lemke of Display Systems International demonstrates how easy it is to set up tenant information channels.**



**Left to right, Willy Pirtle of Shentel, Don Johnson of Paradigm Marketing and Chris Petersen of Prime Time Broadband discuss marketing for PCOs.**



**Fiber system design guru Richard Holtz of InfiniSys Electronic Architects makes it seem easy.**

you offer real estate operators today that they can't get from the competition?"

Dan Terheggen of Consolidated Smart Systems noted that PCOs have it tougher than the typical franchise operator. "Franchises can have something awful, but if the PCO is bad, it reflects in the entire industry," he said. CSS

five large players instead of seven to 10 in a few years. Also, in five years you are going to need 20 to 100 times the bandwidth you need today."

Rader suggested that PCOs offer more voice, noting that Comcast added 590,000 voice customers in just 90 days recently. But others noted that the strat-

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started as a coin-op laundry service for properties, and now has 30,000 video and data customers.

But PCOs do have to move beyond the traditional video-only comfort zone to offer more channels and other services. That leaves more potential for error, but, as Bob Fultz of AMLI Residential said, "people with premium service are the best marketers" for PCOs.

Pirtle said, "We have to keep the salespeople focused on what I'm looking for. We need those 1,000 to 1,500 units in a location to make a profit for us." That's so even though Shentel even finds it profitable to customize program lineups – say, for Latinos – when there are only 250 potential customers for that lineup.

Savoldelli said he wants more. "Even 100,000 subscribers is too small. We compete against telcos in Latin America. They have good technology but bad service. We compete by beating them on service."

Pirtle agreed. Although Shentel is a \$150 million-a-year company, "We're a flea on the tail of the dog compared to a Verizon or an AT&T," he said. He added, "We see a lot of small PCOs in the field, and while economies of scale are important, so is the consolidation of the industry. There may be only three to

egy won't work everywhere, and that VoIP is often thrown into a bundle for as little as \$3 a month. Savoldelli said, "only 23 percent of our kids in student housing have a landline," because they all have cell phones. He predicted that VoIP may soon be given away as a promotional extra.

**FCC Attack on Exclusives**

IMCC chief Bill Burhop worried about the FCC assault on exclusive contracts – an assault that would make it difficult for PCOs to pay for new builds with outside financing because there would be no guaranteed cash flow. "Seven years ago we led the charge to keep exclusive contracts. We hope this year MSOs and DISH and DirecTV will join with us to fight the RBOCs," he said. "NMHC will be carrying the water for us, too."

Burhop's argument is that the Constitution's Fifth Amendment prevents a "taking" of property rights, and that the FCC doesn't have authority to regulate in this area. Owners of MDUs and managers of real estate investment trusts (REITs) should be able to do what they want when making arrangements with PCOs.

Before there was a PCO industry, franchise operators were monopolies,

and engaged in predatory pricing toward upstart competitors. “If I coexisted with a franchise operator in my market they would give free video,” said one audience member.

“To maintain competition today, you can’t throw out the baby with bathwater,” said Burhop, “and we are the babies.” But he admitted that MDUs are considered gatekeepers between residents and service providers, and that gatekeepers are anathema to the FCC. “We are defending something that the FCC staff sees as counterproductive for the end-user consumer... but we can raise the argument that we help differentiate ourselves from everyone else, to provide unique services. [FCC Commissioner] Martin is in Verizon’s pocket.”

The FCC staff is barely watching the effect of exclusives on PCOs, which together control about 1 percent of all households and perhaps 5 percent of MDU households. The FCC notes that MSOs control about 65 percent of the market, and use exclusives to keep control. “Martin says they want to make things fair between RBOCs and MSOs,” said Burhop, “but they will hurt PCOs.”

Savoldelli added, “It is exceedingly important to control the quality of service. And it is impossible to control



**Dom Ruggiero celebrates Multicom’s 25 years.**

the network any time you share it – a contractor with a crowbar can mess it up, and there is sabotage. On analog [cable] systems, there are huge video piracy problems.”

But a panel exploring the topic was more neutral than many in the audience, in part because fiber networks are managed remotely for the most part. Pirtle admitted that he gets business because the MSOs he competes with don’t have exclusives and of course Shentel is large enough to fund its own builds. “All of the big MSOs have reasons not to share inside wiring,” he added, “But one IP network can be shared without touching the physical network itself.” He noted that his company goes into a property protected by exclusivity but then “has to treat customers right anyway,” contrary to what the FCC might imply.

Steve Sadler of Post Properties said it has been hard to share but that he doesn’t “believe in today’s model; there are restraints, it is hard to share. IP networks are the holy grail, if there is one.”

Pirtle pointed out, “If we lose exclusivity we have to drive our costs down, because the incumbent [with scale and no need for an on-premises headend] will always have low costs.” Some Shentel contracts for exclusive fiber service run as long as 20 years, because at current real estate conditions, fiber networks have negative cash flow until a development builds out “and that can take seven years now” with a weakening market for new homes.

Greg McDonald of Camden Properties Trust said his “residents think

about QoS [quality of service] first, not price, believe it or not, and installation speed and so forth. Only after all the needs are met, they look at price.”

Sadler added, “We, as a general rule, like to own our own infrastructure.... I may have an external need to own that wire. Wire access has hamstrung owners. But I don’t want to do maintenance, we want the service provider to maintain it right – treat it with respect, not destroy it, keep it in good working order.”

McDonald does not sign “evergreen” eternal exclusivity contracts, “but we can inherit it [when we buy properties]. We negotiate to get rid of it.”

Attorney and BBP columnist Carl Kandutsch, now with DirecPath, asked about owners now “wanting ‘termination for our convenience’ clauses. Do those owners represent a trend?” He pointed out that “If we have a good service-level agreement, there should be no need for this.”

McDonald admitted that at Camden Properties “we put it into our contract, and the idea is a buyout for no penalty by either party.... It comes up on sale of a property.”

Sadler said, “We may not insert a buyout clause, but we would be accepting to it. We tend to deal with termination in conjunction with sale of property. We treat ILECs and Comcast the same way.”

That’s all PCOs can expect these days, it seems. Terheggen was optimistic, however, as he compared the coin-op laundry business to PCOs. “Our coin-op organization once had 200 members; it now has 24. But we have a bigger voice because there are fewer people to poll and the organization only allows CEOs as members. It is easy to lobby in DC. For instance, they recently got energy efficiency standards for commercial washing machines.” **BBP**



**Bill Burhop (left) and Carl Kandutsch review regulatory and contract issues.**

**About the Author**

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