

# LOOK AT THE HEADLINES IN OUR INDUSTRY!

The overall economic picture may be worrisome, but private cable operators – and MSOs as well – are holding their own. Is the industry recession-proof?

By Bryan Rader ■ *Bandwidth Consulting LLC*

In a recent conversation with the CEO of a large private cable operator, I realized the depths of the economic recession we are in. “I don’t read the paper anymore,” he said. “I used to look forward to seeing the Wall Street Journal on my doorstep each morning. Now I don’t even want to open it up.”

The headlines haven’t been good: General Motors’ share price drops to a 50-year low. Consumer confidence is at the lowest levels since Carter was in office. Banks are writing down losses in the tens of billions of dollars. Airlines are merging just to hang on.

I understand what he means about not flipping through the business pages each morning – it’s not easy to digest your eggs when you’re scanning through this slew of depressing news.

We must remember, however, that they are not talking about our industry. Yes, the market looks grim, and yes, we are definitely in the midst of a down cycle affecting virtually every sector of the economy. And we are certainly not immune from this recessionary period.

But our “headlines” are a lot more optimistic than the general business news environment. Comcast expects revenue growth of 10 percent this year. Time Warner is seeing 50 percent growth in its commercial business. And DIRECTV is still adding big numbers of net new subs.

So what is happening? Is there a PCO recession going on?

Let’s look at our industry’s past for a minute. We have a great legacy of being “recession proof” and experiencing solid growth during economic downturns.

During the early days of Reaganomics (1981-1982), we saw tremendous growth in the cable TV industry. Having basic cable service for \$10 a month was not a luxury; it quickly became a necessity. This was also the case during the 1990-1991 recession, when unemployment rose dramatically but cable TV subscriptions grew even faster. Rather than going out for an expensive dinner, people stayed home and watched HBO.

And how about the most recent downturn in 2000 and 2001? The cable TV industry saw incredible gains in broadband penetration at pricing levels of \$40 and \$50 a month. Even though customers saw paychecks declining, they were willing to spend more for faster access to the Internet.

## GOOD VALUE FOR A SLOW PERIOD

Now we’re looking at the next recession, which likely began late last year, and wondering how it is affecting our customers. Will they downgrade, drop features and get fewer services?

Doesn’t seem so. Average revenues per user (ARPU) for the large cable companies are growing quarter after quarter at an aggressive pace. Several quarters ago, Comcast and Time Warner were reporting \$90 average revenues per user; today revenues are over \$107.

This is driven by tremendous growth in the triple-play bundle – more voice, more digital, and more HD/DVR fees.

PCOs are seeing the same trend. Some PCO leaders are telling me that their ARPUs have jumped by \$20 in the past two years. Yes, the video content producers are getting more of what we

take in. Nevertheless, it doesn’t sound to me like we’re in a PCO or cable TV recession. In fact, maybe we are recession-proof – less expensive entertainment, cheaper telephone service and more Internet options. Better value choices during a slow period.

This is not the case for other industries. Let’s go back and look at the headlines again. The local phone companies are losing 8 to 10 percent of their access lines each year. Starbucks is closing over 600 stores. Dial-up Internet subs are dropping by 10 to 15 percent a year.

All of these segments are hurting, and consumer behavior – especially in a recession – seems to be pointing in our direction. If I were running a local newspaper today, I would be afraid to read my own headlines! But as a PCO, I like our headlines right now. “PCOs raise new funding.” “PCOs see revenue growth.” “PCO acquires more properties in a core market.” And we’re in a down cycle???

We will always experience downturns in the economic cycle. But past and current trends suggest that “recessions” can still be good opportunities for cable operators. **BBP**

## About the Author

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