



Survival of the Fittest: The Transformation of the Communications Industry

*Highlights from CoBank's
2011 Communications
Industry Executive Forum*

FEATURED SPEAKERS:

Keith Galitz

President, Canby Telecom

Chris Hilliard

CEO, USA Companies, Inc.

Jack Koo

COO, Skybeam Inc./

JAB Wireless

Greg Lowe

CEO, Syringa Networks

Steve Oldham

CEO, SureWest Communications

Pat Riordan

CEO, Nsight

Paul Waits

President, Ritter Communications

Scott Widham

CEO, CoBridge Broadband, LLC

Key Points:

- *In recent years, the communications industry has undergone an upheaval, with sweeping changes in the regulatory, technological, competitive, and demographic landscapes*
- *Amidst this turmoil, some of the old-guard rural communications companies are struggling to survive. Others, however, have adapted and are thriving*
- *At this year's forum, executives from eight successful rural communications companies were invited to speak about how they have transformed their enterprises*
- *The speakers related different stories about how they have transformed and reinvented their companies, with three common themes threading through their narratives: reinvention of their networks, reinvention of their business models, and reinvention of their business cultures*
- *A fourth theme highlighted by several speakers was that telecom companies cannot afford to rest on their laurels but must remain vigilant, nimble, and adaptable*

Reinvention and Renewal

CoBank hosted its 14th annual Communications Industry Executive Forum on August 16-19 at the Broadmoor Hotel in Colorado Springs, Colorado. This year's forum was organized around the theme of how rural telecommunications providers have adapted to the telecom revolution.

At this year's forum, executives from eight successful rural telecommunications companies were invited to speak about how they have transformed their enterprises. All of these companies had been created many years ago for one of two purposes – either to provide voice telephony service or, in the case of cable television operators, to provide broadcast video – but have evolved today into fully integrated telecom companies providing converged voice, video, and data services.

By taking advantage of technological evolution and repositioning their companies within the competitive landscape, these eight executives and their colleagues have reinvented their enterprises to serve the changing demographics and preferences of their subscribers. No two speakers relied on the same recipe for their successful transformations, but all their recipes included one common, critical ingredient – a focus on universal practices.

A Darwinian Transformation

In recent years, the telecom industry has undergone an upheaval, with sweeping changes in the regulatory, technological, competitive, and demographic landscapes. Some of the old-guard companies are struggling to survive. Others, however, adapted and are thriving.

How did the survivors manage to dodge the bullet? The speakers all told different stories about how they have transformed and reinvented their companies; three common themes emerged through their narratives:

- Reinvention of their network
- Reinvention of their business model
- Reinvention of their business culture

A fourth theme that was highlighted by several speakers was that telecom companies cannot afford to rest on their laurels but must remain vigilant, nimble, and adaptable. Pat Riordan, CEO of Nsight, emphasized that, “you have to constantly reinvent your company to continue to be successful.” Even during periods of growth, companies must always be looking to the future.

“



You have to constantly reinvent your company to continue to be successful.

- PAT RIORDAN, CEO, NSIGHT

Reinvention of the Network

Deregulation and technological advances have enabled local exchange carriers, cable companies, and wireless providers to provide a converged bundle of broadband services to subscribers. But those same trends have also created a cauldron of intense competition among formerly disparate industry segments. The companies

profiled may have started with local exchange carrier roots or as the local cable television provider, but they have all reinvented their networks by replacing copper lines and pushing fiber deeper into their networks – and in many cases, have extended them all the way to their customers’ premises. The speakers emphasized that wireless broadband providers must also continually reinvent their mobile networks, ever-mindful of their needs for fiber rich wire-line backhaul facilities.

Every speaker emphasized the importance of a robust network. For example, Paul Waits, President of Ritter Communications, remarked that “no matter whether you’re wireless or wire-line, fiber is absolutely fundamental to what’s going on in our business today.” Roseville, California-based SureWest also believes that a high-capacity fiber network and the ability to deliver more content is the key to a critical competitive advantage. In recent years, SureWest has re-invested as much as 30 percent of its revenues back into expanding its fiber network, making more than half of the homes passed fiber-to-the-home capable. Keith Galitz, the President of Canby Telephone Association, delivered a similar message, “[W]e’ve also discovered... that we’ve got to have that bandwidth if we’re going to deliver the products and services our customers want. Fiber is one of those things we know is a quality investment.”

Wireless providers also recognize the critical strategic importance of a robust network. Jack Koo, COO of SkyBeam, explained that his company isn’t settling for the 7 Mbps of service currently provided to its fixed wireless broadband subscribers. Instead, his company is upgrading its network to provide 40-80 Mbps speeds to penetrate the enterprise market and execute their organic growth strategy.

Data transport companies are arguably in the best position to use a robust network as a springboard to success. These entities are in the business of moving data over their networks and thus are agnostic with regard to technological and competitive landscapes. As a fiber transport company, Syringa started life with a fiber backbone; and as broadband demand soared, the

company invested in upgraded technology to increase the bandwidth of its existing network, and also pushed fiber out to reach more customers. As a result, the company has doubled its revenues in the past two years.

Reinvention of the Business

To be successful, an integrated broadband provider must do more than simply upgrade and expand its network. Nearly all of the forum's speakers mentioned that they have also reformulated their business strategies and models from both a financial management perspective and a marketing perspective.

Some companies have focused on the costs of managing their network assets. Scott Widham, CoBridge's CEO, likened the growing demand for bandwidth to a tsunami that can completely overwhelm a broadband provider's



“Everyone is looking to try to see what's the next step. And if you don't continue to look for that next step, I think you'll stagnate fairly rapidly.”

- PAUL WAITS, PRESIDENT,
RITTER COMMUNICATIONS

ability to meet the needs of its customers. After installing a network upgrade, a provider must then ensure that it is disciplined in how it manages its resources. Widham noted that, in addition to doubling and tripling the amount of bandwidth, they've also had to shape and meter the bandwidth, restrict the 10 percent of users deemed “abusers” of network resources, and deploy transparent internet caching to use bandwidth in the most efficient manner.

Other companies have focused directly on controlling their expenses, including those for capital expenditures. For example, Syringa has developed a rate-of-return model to become more disciplined in the allocation of its limited capital. Greg Lowe, Syringa's CEO, explained that he relies on the model as “a guilt-free way to say ‘no’...because, long-term, it's not...in our best interest to do things that are irrational.” SkyBeam has created a success-based program that allocates more than half of its total capex spending to installations for new customers, and is typically expended only after a new customer has been connected.

Similarly, SureWest has also created a disciplined capex program, but its main focus has been on streamlining its labor costs. Steve Oldham, SureWest's CEO, explained that the company has restructured its employee compensation plans to provide “pay and benefits that directly impact the quality of life of [its] employees.” Senior executives at Canby Telephone and USA Companies reported that their companies also had achieved major operating efficiencies by concentrating on activities such as controlling costs through consortium agreements, outsourcing non-core functions, and sharing human resource assets.

Some companies have also reinvented their businesses by developing new services and products for existing and new customers. Pat Riordan, Nsight's CEO, listed several ground-breaking device-to-device wireless products that his company is rolling out, “...everyone is looking to try to see what's the next step...and if you don't continue to look for that [next step], I think you'll stagnate fairly rapidly.” Paul Waits, the President of Ritter Communications, recounted that his company “discovered opportunity in the broadband build-out;” and also generated new business from both “demand pull” and “supply push” economics. Pushing fiber supply closer to more businesses and institutions, positioned the company to simply “be in the way” when those organizations needed more bandwidth. Ritter's executives also found themselves being “pulled” into new opportunities, such as data centers, which are a natural outgrowth of providing more connections to bandwidth-

intensive companies. Essentially, companies must be relentless in pursuing innovative new approaches.

Reinvention of the Culture

Many speakers also highlighted the necessity of reinventing the cultural fabric of their organizations; this has been especially important for the wire-line carriers as they have navigated the transition from their legacy business. Here's how Steve Oldham contrasted the business model and culture before and after the telecom revolution:

“Prior to this transition, we had limited, if any, competition. Customers came to us; we didn't have to find them. Regulators were the ones who defined the minimum level of customer service. Today, we're a sales and marketing driven company.”

Syringa's Greg Lowe related a similar before-and-after story for the fiber-transport providers. He pointed out that many RLEC-owned fiber networks had begun with exactly the same mindset as the one described above by Oldham:

“Everything we did was tailored around what fit a reimbursement model. [But] we have spent the last eight years building a corporate culture, building processes, building a company that was tailored towards operational excellence. Growing the outside revenue required that we become marketing-driven. Those two things, culturally, are very, very different.”

If a company wants to reinvent its culture, it must be certain to create, articulate, and communicate the enterprise's new goals and objectives. Only then will its employees know what they must now do for their “new” company to be successful. “An organization of humans,” explained Paul Waits of Ritter Communications, “whether it's a company or anybody else, to sustain attention and intention over a period of time, requires a strong sense of shared purpose.”

Greg Lowe tells his employees, “It's company first, team second and individual third. We tell them that the best security they can have, is to have a healthy



Prior to this transition, customers came to us; we didn't have to find them. Today, we're a sales and marketing driven company.

- STEVE OLDHAM, PRESIDENT,
SUREWEST COMMUNICATIONS

company.” He continued, “Everything we do inside the company is prioritized against this structure.” Steve Oldham tells his SureWest employees that they will be rewarded directly for those actions and behaviors that result in customer acquisition, retention, satisfaction and ultimately profitability. Similarly, CoBridge employs an incentive strategy, a comprehensive training program, and individual “contract sessions,” so that its employees have discussed and agreed to the company's goals and objectives as well as their own.

Concluding Remarks

In recent years, the rural telecom industry has undergone a Darwinian transformation. It has been buffeted by regulatory uncertainty and reforms, sweeping technological changes, and intensified competition. Some rural telecom companies are struggling to adjust and are disappearing through merger and acquisition. Others, as highlighted at CoBank's 14th annual Communications Industry Executive Forum, have reinvented themselves and are thriving today as innovative entrepreneurs.