

In the midst of telecom turmoil, two independents stand tall

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In an industry where earnings forecasts are being slashed almost daily, two Independent telephone companies, CenturyTel and Cincinnati Bell, are unrelentingly pursuing the fundamentals of telecommunications--and succeeding. Consider this stark contrast.

On one hand, the market valuations of the major long-distance carriers are off anywhere from 70% to 100%, and the stock prices of the Bell companies have fallen 30% on average. On the other hand, CenturyTel turned in healthy growth of 25.5% in revenue and 28.6% in EBITDA (earnings before interest, taxes, depreciation and amortization) in the third quarter of this year compared with the third quarter of 2001. Similarly, at Cincinnati Bell, revenue and EBITDA growth in 2001 were an impressive 12% and 25%, respectively. While 2002 has not been as good, revenue is still growing 2.5% and EBITDA 11%.

What's going right?

To those of us who love telecommunications and are disheartened every time we see fraudulent behavior destroy a part of this great industry, including the lives of the men and women who have created it, the CenturyTel and Cincinnati Bell stories are encouraging. They've stayed with their core lines of business, excelled at them and prospered.

First, let's look at CenturyTel. Based in Monroe, La., CenturyTel is the eighth largest local exchange telephone company in the nation serving approximately 2.44 million access lines in 22 states covering mostly rural America. Its strong revenue and profit performance affirms its belief that rural telephony is one of the industry's brightest segments. Since 1996, CenturyTel has acquired approximately 2 million access lines from other telcos and has followed a strategy of becoming a pure-play, wireline, rural exchange company. Karen Puckett, President and Chief Operating Officer, envisions five growth initiatives that will carry CenturyTel into the future including:

- Continue to aggressively offer broadband into the heartland of rural America. Currently, 67% (excluding newly acquired exchanges in Alabama and Missouri) of their access lines have been upgraded for DSL and penetration is at 3.2% and growing over 124% annually (third quarter 2002 compared with third quarter 2001). This will enable the launch of new products and services based on broadband technology
- Drive revenue growth in newly acquired markets by deploying and offering value-added services such as voice mail and calling features
- Expand strategic bundle platform to provide customers wider choice, convenience, and better pricing
- Leverage assets into out-of-franchise territories where customers are requesting CenturyTel service
- Rollout new and enhanced products and services.

"These growth initiatives will not only help us keep our existing base of customers loyal to CenturyTel, but will also enable us to achieve growth through acquiring new customers and through introducing new products and services. While we have experienced some decline in second lines, we haven't experienced the level of downturn that the RBOCs have because we have less exposure in rural and small community markets," said Puckett. "We are leveraging our local presence in providing advanced services to our communities."

A similar story, but with a slightly different perspective, can be observed from Cincinnati Bell, a division of Broadwing Inc., based in Cincinnati. The company is a 129-year-old local exchange and wireless carrier serving approximately 1.2 million access lines in Ohio, Kentucky, and Indiana with a legacy steeped in customer satisfaction and financial stability. Like CenturyTel, Cincinnati Bell continues to grow its business consistently. Revenue and EBITDA growth in 2001 was an impressive 12% and 25%, respectively. While 2002 has not been quite as strong, revenue is still growing 2.5% and EBITDA 11%. Most noteworthy, in a recent study by J.D. Power and Associates, the company was ranked No. 1 in customer satisfaction, for local and long-distance residential telephone services for the last two years.

"Outstanding customer service is our first priority," says Jack Cassidy, president and chief operating officer of the company. "We know that revenue growth is important, but profitability is the second part of the equation. We believe that if we provide the best customer service in the industry, not only will our customers stay with us for the long haul, but they will also respond by buying new products and services as we introduce them."

Cincinnati Bell has bet its future on the belief that customers are interested in dealing with them for all its services including wireline, wireless, broadband, data, local and long-distance through a single interface. The company restructured by eliminating product silos and providing a single point of contact making it convenient for customers to do business. This, the company believes, is what enabled it to be the only telephone company in the nation to receive back-to-back J.D. Power and Associates awards. With this as a fundamental underpinning, Cassidy has outlined three strategies for growth:

- Offer broadband data products to business customers such as multinationals and integrate its local Cincinnati Bell requirements with the national network of Broadwing, its parent company. In addition, the company will explore alternative services as a part of its DSL product line.

- Take bundling to the next level in the industry by offering the complete portfolio in a multiproduct offer. " We believe the key differentiator for us is our ability to have wireless in the bundle, something our competitors can not replicate easily," said Cassidy. "Today 50% of our wireless customers receive their bill from us in a bundled offer. We were also the first telecommunications company to launch a comprehensive residential bundle that included all of our product lines. This bundle includes wireline, long-distance, Internet (both dial-up and high speed) and wireless services."
- Expand the company's existing footprint smartly into pre-qualified, adjacent markets where it can profitably leverage its network infrastructure. For example, the company installed a fiber ring in a high growth area outside Cincinnati after talking with government, university and business customers who were unhappy with their current service provider. "We call this our Smartbuild process because we can profitably serve customers outside our franchise territory by extending our network when customer demand warrants it. This is a superior way of expanding geographically for us than through a CLEC operation where the economic returns are so risky," said Cassidy.

While Karen Puckett and Jack Cassidy are taking their respective companies down decidedly different paths, they are both firmly rooted in the fundamentals of the telecommunications industry. Their success is a tonic to an industry that's been buffeted and now is seeking a formula for recovery. Certainly, the industry should pay attention to what is going on in Monroe and Cincinnati.

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