

# Finance (and other) Best Practices in an Uncertain Telecom World

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Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## INDUSTRIES

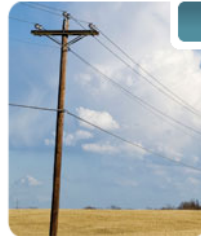
Industries > Telecom > Overview

- Apparel
- Construction
- Dealer Services
- Energy & Utility
- Financial Services
- Food & Agriculture
- Forest Products
- Health Care
- Hospitality & Gaming
- Manufacturing & Distribution
- Not-For-Profit & Government
- Real Estate
- Technology & Life Sciences
- Telecom**
- Wealth Services

### TELECOM

For more than 50 years, Moss Adams has been a trusted advisor to telephone cooperatives and commercial carriers.





- Overview**
- Services
- Benchmark Study
- Seminars



### TELECOM

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# MY QUEST: FACING AN UNCERTAIN FUTURE

SHARE & HELP IMPLEMENT WHAT ARE OTHERS SAYING AND DOING

- 3 open questions:
  - View of the rural ILEC future?
  - ST strategies/actions?
  - LT strategies/actions?

# MY QUEST: FACING AN UNCERTAIN FUTURE

## WHAT ARE OTHERS SAYING AND DOING?

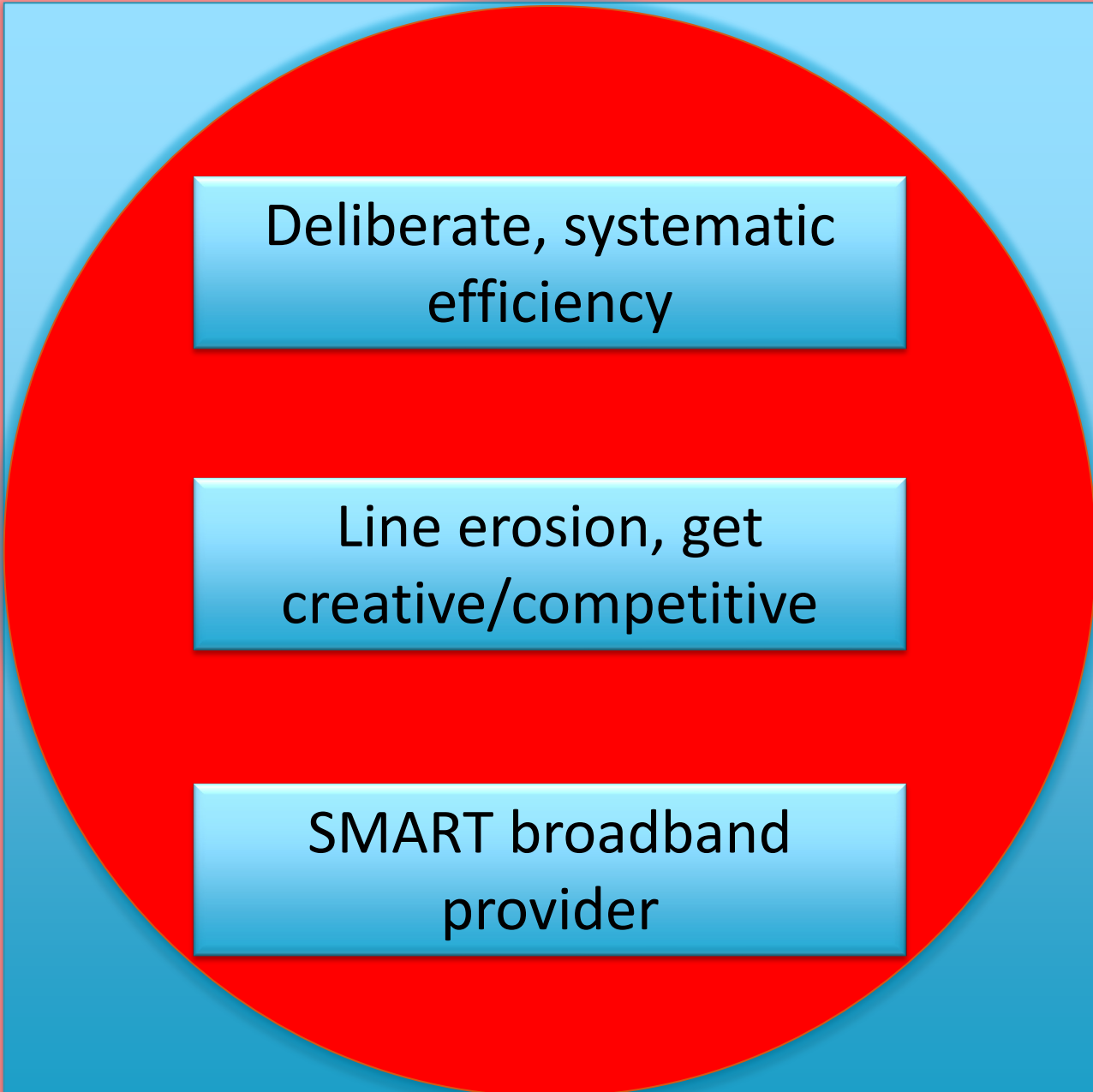
- 4 universal themes
  - Planning is more critical than ever – not a strength
  - Efficiency – get used to it
  - Need to get Creative and Competitive
  - Become a strong broadband provider
- Secondary items learned
  - This industry likes to talk!
  - Wants to know what others are doing – i.e., best practices

# Planning for the future

Deliberate, systematic  
efficiency

Line erosion, get  
creative/competitive

SMART broadband  
provider



Deliberate, systematic  
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Line erosion, get  
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WE'VE HEARD THIS BEFORE – BUT HOW  
DO WE DO IT?

## #10 *PLAN: NEED A VISION AND A PLAN*

- Mission, Vision and Values
- Strategic Management Planning
  - Strategic initiatives/planning meetings – it's hard!
  - Develop a few core strategies – then initiatives – then actions
  - Without structure you will not have a good result
  - Annual offsite planning critical

## #9 *PLAN*: DON'T FORGET THE LONG-TERM

- BHAG 5 year model
- Implement Rolling Re-forecasts
  - Refresh 3-5 year forecast periodically and in conjunction with the annual budget

## #8 PLAN: FOCUS ON CAPITAL STRUCTURE (DEBT/EQUITY)

- Need a capital structure strategy
  - A vision – reduced debt structure, etc.
  - A plan – need resources that actively manage it
- One company's success story
  - Consider it their #1 business practice for driving profitability
  - In a 10 year period:
    - Debt down over \$10M
    - Equity % up 25%
    - Debt costs down 2.5% and annual interest declined \$1M/year

## #7 PLAN: EXECUTE!

- Many set a plan but don't implement
  - Work your mission and vision every month
  - Don't spend all year planning – or set a plan just to put in on the shelf
  - Keep it simple – a refined plan is very powerful
  - Avoid multiple plans – organizational, departmental, personal, etc.
    - Critical to align strategic plan, departmental/operational strategies and the annual budget
- Measure – Know your numbers
  - Robust, but concise management packet
  - Use scorecard process for organization/department/employee/etc
  - Modernize accounting and reporting

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# Telergée Benchmarking Study

BASED ON 2010 DATA FROM 218 COMPANIES

a study for the rural telecom industry



# TELERGEE BENCHMARK STUDY

## KEY MEASUREMENTS

- Asset allocations and capital structure
- Revenues, expenses, and profitability
- CLEC data
- Revenue concentration (ie USF)
- Plant investment
- Nonregulated investments and operations, particularly wireless, internet, and cable TV
- Service penetrations and customer counts
- Payroll and staffing data
- Forecasted income and investment information
- Credit rating definitions and scores

# TELERGEE BENCHMARK STUDY SCORECARD

TelergEE - 2010 Scorecard	ABC Telephone Company			Company's Category (i.e., Co-op, Cost Study, 15,000+ lines)					Variance 10-MED	Median 221 Telcos	Median 105 Coops
	2009	2010	10-09	Min	1st Q	Median	3rd Q	Max			
<b>Access line counts</b>											
ILEC access lines	18,024	<b>17,363</b>	(661)	9,916	14,445	17,580	21,865	46,802	(217)	2,489	3,238
CLEC access lines	2,841	<b>2,751</b>	(90)	0	988	2,798	4,870	16,096	(47)	524	1,257
Total access lines	20,865	<b>20,114</b>	(751)	16,942	19,087	22,599	25,724	46,802	(2,485)	2,975	3,458
Access lines per square mile served	1	<b>1</b>	(0)	1	1	4	7	44	(3)	7	6
Number of exchanges	30	<b>30</b>	0	7	14	23	33	48	8	4	7
<b>Size of operation (000's)</b>											
Assets	\$94,855	<b>\$94,521</b>	(\$334)	\$73,863	\$90,648	\$114,947	\$132,921	\$210,666	(\$20,426)	\$18,767	\$22,545
Equity	\$49,675	<b>\$54,701</b>	\$5,026	\$23,148	\$45,015	\$60,475	\$92,971	\$125,886	(\$5,773)	\$11,629	\$14,373
Consolidated operating revenue	\$42,712	<b>\$43,831</b>	\$1,119	\$23,677	\$33,430	\$38,057	\$46,515	\$103,282	\$5,774	\$5,545	\$6,540
Consolidated net operating margins	\$4,274	<b>\$6,487</b>	\$2,212	(\$496)	\$4,016	\$5,204	\$6,476	\$6,999	\$1,282	\$527	\$542
Consolidated net income	\$2,484	<b>\$4,761</b>	\$2,277	(\$2,508)	\$1,221	\$4,182	\$5,433	\$8,147	\$579	\$489	\$441
Consolidated EBITDA	\$15,225	<b>\$16,822</b>	\$1,597	\$5,378	\$11,208	\$15,934	\$19,802	\$31,419	\$887	\$2,586	\$2,925
Consolidated free cash flow	\$5,753	<b>(\$1,850)</b>	(\$7,604)	(\$6,255)	(\$1,608)	\$1,140	\$2,839	\$7,203	(\$2,990)	\$641	\$641
Consolidated plant additions	\$21,673	<b>\$3,714</b>	(\$17,959)	\$3,714	\$9,842	\$13,543	\$17,824	\$26,785	(\$9,829)	\$1,415	\$2,158
<b>Customer counts</b>											
Wireline	16,215	<b>15,709</b>	(506)	13,497	15,049	15,767	23,730	36,553	(58)	3,021	3,463
Wireless	0	<b>0</b>	0	276	1,244	3,670	10,535	13,625	(3,670)	561	1,091

# INCOME STATEMENT - REVENUES

## Old Part 32

OPERATING REVENUES	
Local network revenues	\$ 1,435,928
Network access services	8,376,204
Long distance network services	1,230,491
Miscellaneous	213,924
Nonregulated revenues	12,293,812
Uncollectible revenues	(53,927)
	<hr/>
Total operating revenues	<b>23,496,432</b>
	<hr/>
OPERATING EXPENSES	
Plant specific operations	3,227,503
Plant nonspecific operations	1,237,450
Depreciation and amortization	4,182,759
Customer operations	1,189,372
Corporate operations	1,928,324
Other taxes	253,943
Nonregulated	12,302,847
	<hr/>
Total operating expenses	<b>24,322,198</b>
	<hr/>
Operating margins	<b>(825,766)</b>

## New

OPERATING REVENUES	
Wireline	\$ 9,812,132
Internet	6,392,750
Television	5,901,062
Long distance	1,230,491
Miscellaneous	159,997
	<hr/>
Total operating revenues	<b>23,496,432</b>
	<hr/>
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Operating margins	<b>(825,766)</b>

# INCOME STATEMENT - REVENUES

	<b>New</b>		<b>Even Newer</b>
<b>OPERATING REVENUES</b>			
Wireline	\$ 9,812,132	Wireline - incumbent and competitive lines	
Internet	6,392,750	Customer	\$ 2,103,948
Television	5,901,062	Intercarrier	
Long distance	1,230,491	Interstate	1,984,372
Miscellaneous	<u>159,997</u>	Intrastate	1,594,425
		Universal service support - federal	<u>4,129,387</u>
Total operating revenues	<u>23,496,432</u>		
<b>OPERATING EXPENSES</b>			
Plant specific operations	3,227,503	Total wireline revenues	<u>\$ 9,812,132</u>
Plant nonspecific operations	1,237,450	Miscellaneous	
Depreciation	4,182,759	Rent	\$ 90,387
Customer operations	1,189,372	Billing and collecting	67,329
Corporate operations	1,928,324	Other	56,208
Other taxes	253,943	Uncollectible	<u>(53,927)</u>
Nonregulated	<u>12,302,847</u>		
Total operating expenses	<u>24,322,198</u>	Total miscellaneous revenues	<u>\$ 159,997</u>
Operating margins	<u>(825,766)</u>		

## #6 *EFFICIENCY: NETWORK STRATEGY*

- Future proof/efficient network
  - Cuts down on future CapX.
  - Extra cash flow can be put towards debt.
- Fiber capacity, switching agreements, leases, etc.
  - Avoids large one-time costs
- Collapse multiple networks
  - Reduces maintenance and operating costs.
- Mergers and combinations – organizations or network sharing
  - Economies of scale to be gained (# of switches, etc)?

## #5 *EFFICIENCY: CAPEX STRATEGY*

- Critical/targeted capital budgeting
  - Drive customers or services
  - Avoid just spending to increase rate base
- Business case modeling on non-reg ventures
  - May ultimately decide to pursue a break-even or slim margin service for competitive reasons
- Implement a Project Management Process
  - Set priorities from the top down w/executive support
  - Need a Measure of Success (MOS)

## #4 EFFICIENCY: WATCH YOUR HEADCOUNT

- Challenge your current and future head-count (very difficult)
  - Attrition without replacing position and targeted reductions. Recognize responsibilities.
  - Robust performance management process.
- Evaluate productivity and efficiency
  - Less customers/revenues = less cost in business?
  - Review processes and systems – automate and eliminate redundancies
- Outsourcing study
  - Analyze full time employees vs. contract labor

# #3 *EFFICIENCY*: IMPLEMENT PERFORMANCE BASED COMPENSATION

- Control base compensation
  - Frozen in some cases
  - Revisit salaries every few years – remain competitive
- Future increases/bonuses from incentive payments
  - Rigorous, goal driven system
  - Goals can be financial, customer service oriented, etc.
- Things to consider on incentive comp
  - Better financial results requires everyone to perform
  - Goals/objectives for performance as an organization is aligned with personal compensation
  - Requires tight standards, measurement and management

## #2 EFFICIENCY: COST STRUCTURE

- Restructure benefit packages – remove excess
  - Cease new entrants to pension and retiree medical plans.
  - Creation of “Tier II” employees
  - Adjust PTO programs to be in line with market
- Consolidation/elimination of subsidiaries
- Cost sharing - merge or partner with others
  - Share costs -call/data centers, back office, executives, etc.
- Rate renegotiations with vendors and contractors
  - Other than with firms that start with “M” and end in “Adams”
- Tighten inventory controls
  - Not glamorous but avoids waste and tying up cash

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“Sometimes cost reductions can't be gradual or easy, if the company has a profit goal and misses it by 25% they need to cut costs now, or change the goal.”

~Former public CLEC CFO

# #1 CREATIVE/COMPETITIVE: FOCUS ON SALES, MARKETING & PRODUCT MANAGEMENT

- Make sales and revenue replacement a Priority
  - Someone's core focus – measure and hold accountable
  - Use nimble commission structure to reward behavior
  - Focused data mining and prospect "pipeline" – retention & win back strategy
- Look for creative new sales channels
  - Examples - CSR's, telecom techs, service center techs, home builders
  - Sales funnel & innovation roadmap – stay ahead of customers needs
    - Over the top video, outsourced CIO, data center, alarm/monitoring
    - Study services – beware the trap of “we have to do it or we will lose out”
- Need a dynamic and creative bundling process – don't just set and forget them
  - Constantly reassess and reengineer bundles and packages
    - Listen to the market – doesn't do any good to have bundles people don't want

# #11 (HONORABLE MENTION)

## OTHER ITEMS TO CONSIDER


- Keep focus on broadband customer experience
  - Customer experience has to be good – don't have to be the fastest but can differentiate with service
    - Annual survey for feedback – but act on it!
- Establish a communication/reward strategy
  - Facing a lot of changes – intranet portals, “town hall” meetings, etc.
  - Employee engagement survey
  - Meaningful employee recognition program
    - Summit awards – Peer/Peer, Customer/employee, Manager/employee, President/employee
- Community involvement
  - EDC, Chambers & Charitable organizations – can be a strategic way to build customer/community relationships

THURSDAY, DECEMBER 1, 2011

### [Reform Webcast Recording Available](#)

On November 29, Moss Adams principal, Chad Duval, presented the 2nd in our webcast series on the USF & ICC Reform Order and FNPRM. The recording of that webcast, *Mobility Funding, Waivers & More*, is now available on the Moss Adams YouTube channel. Part 1 of our webcast series, *USF Reform*, is not currently available On Demand.

### [View webcast](#)

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