

A Practical Guide to Charting One's Own Course

Success, Failures and Lessons Learned in Rural Telecom

REPORT OF THE NTCA FUTURES TASK FORCE
APRIL 2018



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1. Introduction and Background

Project 2005 & the 1995 Futures Committee

In February 1995, a group of 20 rural telecom industry leaders convened the first NTCA Futures Committee meeting in anticipation of tackling a new initiative called Project 2005. Project 2005 involved a strategic planning process toward the creation of a sample strategic business plan for a typical telephone cooperative in 2005, although it explicitly noted that the principles presented would apply to all small commercial and cooperative telephone companies “regardless of how they are organized.” After a series of meetings over the remainder of that year, the Futures Committee produced its “Project 2005 White Paper,” a copy of which has been attached hereto as Appendix A.

To develop the strategic plan embodied in the white paper, the 1995 Futures Committee created “All Star Telephone Cooperative,” which was described as “a fictitious, average sized telephone cooperative.” Key features of the company included details on its number of employees (20), its ownership of a digital switch and its outside plant deployment (92% of its network being copper to customer premises, with fiber for interoffice connections between the host switch and remotes). Other pertinent details include distance from the nearest interexchange carrier point of presence (20 miles), and ownership of facilities to the Bell Operating Co. tandem. The company was noted as having 4,000 access lines and historic 4% line growth, “although it is expected that this growth should accelerate over the next several years.” Regulatory details included its average schedule status, lack of explicit universal service subsidy and percentage of total revenues derived from access charges (64%).

While such details present an enjoyable trip down memory lane to some degree for those in the telecom business for decades, they indeed appear relatively consistent with the average experience of rural telcos in 1995—and also present an interesting picture of the relatively stable and monolithic nature of the industry at the time. Indeed, the 1995 Futures Committee anticipated astoundingly well the impending dynamism of the industry, capturing many of the challenges and opportunities expected to arise over the next decade. Such “environmental issues” included the “growth of PC technology” and “growth in the use of and exposure to the internet,” an aging rural population, the confluence of “the entertainment, communications and information businesses,” trends toward competition and partnerships, the obsolescence of switches, the growth of wireless services, and reductions to regulated support revenues and mechanisms in the face of increased market-opening measures and regulatory pressures.

Just as the 1995 Futures Committee did a remarkable job in anticipating changes that would come over the next decade, the comprehensive strategic plan ultimately developed for Project 2005 set forth many recommendations that ring true even today. For example, the plan highlighted the need for All Star Telephone Cooperative to get ahead of convergence and competition, leveraging its “core business” to expand into lines of business and avoid stagnation or even decline while recommending the need to develop “a complete product line (one stop shop) of entertainment, communications and information services.” (Of course, one of the recommendations included entering the now-oft-dreaded CATV business, although even that recommendation wisely positioned such entry as important particularly for “market positioning” and as a “precursor to broadband services.”) The need to acquire talent and train employees for new technical and marketing skills also featured prominently in the plan, along with notations that much greater efficiencies would be needed to operate in a competitive environment.

The Current Futures Task Force

In late 2016, the NTCA Board of Directors approved the creation of a Futures Task Force, an initiative inspired by and modeled after the efforts of the 1995 Futures Committee. Composed again of 20 NTCA member leaders representing a broad cross-section of association membership in terms of geography, lines of business and firm size, the task force was asked to develop a work product that could be reviewed by the board and then published to the full membership as a guideline and aid in strategic planning and progressive business thinking. This report represents the initial publication in what is hoped to be an ongoing and interactive process.

Many of the changes anticipated by the 1995 Futures Committee as complicating the telecommunications industry landscape by the year 2005, however, also presented challenges to the new Futures Task Force in scoping this project and identifying direction. While the rural telephone industry was on the cusp of momentous disruption and metamorphosis in 1995, the changes that were still to come back then have long since taken root, and they continue to evolve even today. Thus, in first considering the scope of this project, the Futures Task Force determined that the approach prudently taken by the 1995 Futures Committee—creating a “typical” telco and identifying how it might plan for or respond to changes in the marketplace—would be neither feasible nor accurate in today’s environment. More specifically, precisely because of the still-evolving sets of changes first glimpsed on the horizon by the 1995 Futures Committee, the current Futures Task Force concluded that there is no effective way in today’s marketplace to define a “typical” telco. Although the rural telecom industry has long been known for its independent status, and even as cooperative and commercial companies alike have shared heritage (and commitment) as hometown-based rural communications providers, the diverse choices made by individual firms over the past 20-plus years in the face of competitive pressures, technological

change, and evolving consumer preferences render it all but impossible to fashion a “typical” telco or even to define with any ease or precision several different flavors of rural operators. In addition to the diversity of terrain and size (or corporate status) that might have distinguished telephone companies from one another in 1995 or 2005, today’s “independents” have distinct product and technology mixes, competitive pressures, lines of business and even regulatory classifications that only underscore the idea that there is no one-size-fits-all approach today to rural telecommunications.

A Matrix of Challenges, Issues, Characteristics and Opportunities

In light of these conclusions, the Futures Task Force *was compelled* to take a different approach than the work of its predecessors in 1995. Specifically, rather than devise some version of a SWOT analysis and a singular strategic business plan for a “typical” company, the current group decided to develop a matrix that would identify various challenges and issues faced by companies operating in the telecommunications industry generally and by rural operators in particular.

For example, whereas All Star Telephone Cooperative in 1995 was relatively reliant on regulated sources of income (with access charges representing 64% of revenues) much like the rest of the industry at the time presumably, the matrix to be developed would simply indicate “Reliance on Support/ Regulated Revenues” as one kind of challenge and issue that can affect rural telecom operators. But these challenges and issues would then be mapped to relative characteristics of various companies; so, staying with the example of reliance on regulated revenues, the characteristics could range from “none” to “high,” such that telcos today could review the matrix and consider how various characteristics might affect their operations. The Futures Task Force further believed it important, however, to identify opportunities at every turn with respect to challenges and issues and present them as ideas for firms to consider in facing such issues and looking for thoughts as leverage to overcome them.

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Yet, as the current Futures Task Force project wound its course, it quickly became apparent that the potential permutations of telco challenges, issues and characteristics were so significant that a matrix that covered every possible difference would become cumbersome to the point of losing all utility for NTCA members looking to use this report in a meaningful way. Thus, as discussed below, after considering more than a dozen different characteristics of telcos and developing an initial list of 10, the Futures Task Force ultimately focused upon six it saw as more important in differentiating telcos and affecting business plans.

The matrix attached to this report (see Appendix B) is intended then to give each NTCA member a variety of tailored, self-selection reference tools to review in considering what sorts of issues it may face based upon its own characteristics and suggested potential opportunities for companies of a given set of characteristics to consider in the face of challenges and issues. For example, a “very small” NTCA member (in terms of total company revenues) would likely face different concerns than a “very large” telco, and the matrix spells out those differences for each such company (and companies on the spectrum in between). The matrix then identifies some opportunities that might arise for companies with each kind of profile; as one rather obvious example, a company with relatively high density might likely find it easier to deploy more future-proof networks to most/all customers, whereas a telco with very low density might consider using a variety of alternative technologies to reach consumers, particularly in the face of what might be more limited competition across that wide footprint.

It will also be noted that the matrix does not specify what constitutes “very small” as compared to “very large,” for example. This involved much discussion as well, and is purposeful. In the end, it is hard to draw bright lines that differentiate companies in many of these characteristics. Moreover, the same diversity in the industry that makes it difficult to adopt a template or one-size-fits-all approach to planning as noted above complicates, if not defeats, an effort to draw hard lines between categories; for example, what is “sparsely populated” in one part of the country could very well look “densely populated” in another (even as all are rural). Finally, the Futures Task Force wanted to some degree to allow firms to self-select where they stand on the characteristics, based in part upon what challenges and opportunities they see as relevant to their business and operations.

The ultimate goal of the matrix, when combined with this report, is to give NTCA members of all shapes, sizes and interests a common, but tailored, reference point to which to look in assessing their challenges and issues and considering their opportunities. In connection with this goal, to help facilitate effective use of these tools over time and to promote more granular information-sharing among the industry with respect to shared challenges and opportunities despite the diversity of the NTCA membership, the Futures Task Force also has recommended, as discussed further in this report, the development of a survey by NTCA to help members understand how/where they identify as compared to other rural telcos with respect to the various challenges and issues and characteristics. The ultimate goal of such a survey would be to develop forums for discussion and programming and/or more targeted guidance for discrete groups that happen to share similar characteristics and thus face similar concerns and may see or seek similar opportunities.

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Case Studies—Success and Failures

Although the preliminary work of the Futures Task Force focused on deciding how best to capture and present some common threads to aid strategic guidance for truly independent and diverse operators, as the group's review progressed, consensus developed that more guidance would be helpful beyond a chart mapping challenges and issues to certain characteristics and suggesting potential opportunities in abbreviated matrix form. In particular, the group migrated toward discussion of case studies—illustrative examples of firms of different kinds facing different challenges and descriptions of the efforts made by those telcos to address or overcome those issues.

The task force discussed that “lessons learned” often come as much from failures as from successes, and the case studies included within this report are therefore intended for both better and worse to provide real-life examples of the kinds of issues presented and discussed in the matrix. Consistent as well with the approach and goals of the matrix, the case studies identify opportunities arising out of both success and failures—instances where even an imperfect product launch or adversity faced in undertaking a new project led to an important lesson that guided future efforts or even could be converted into a new line of business that was unanticipated at the start of the effort. The Futures Task Force hopes that these case studies will prompt not only creative thinking about potential opportunities over the course of running a business, but as discussed further below, that they will prompt others to share similar stories and experiences in future settings to inform and guide other NTCA members as they consider courses of action.

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Innovation Through a Changing Sales Culture

Finally, the Futures Task Force discussed the need for NTCA members and other telcos to consider an evolution, or a “changing of cultures,” with the rural telecom industry. In 1995 when the first Futures Committee did its work, the local exchange industry was a regulated monopoly, with competition only starting to knock on the door mostly in urban markets via competitive access providers. Although changes in law the next year enabled competition specifically in the local exchange marketplace, rural markets still enjoyed some legal and regulatory protections in the name of universal service, and it was ultimately technological change—such as increasingly robust wireless networks and the advent of over-the-top services—that appears to have made competition more of a reality even in some of the most rural markets.

The Futures Task Force believes strongly that this evolution in technology and competitive presence necessitates a changing of culture within the rural telecom industry. This paper and project does not attempt to tackle technology questions, as rapid evolution in technology and unique company- and area-specific considerations drive each firm's choice of technological solutions. Rather, this report focuses primarily on encouraging changes in business planning and culture. In particular, whereas in the past, rural telcos may have been able to sit back and operate as "order takers" (or "gatherers") in an environment where customers had only one place to go for their telecom services, the Futures Task Force contends that today's rural telcos must be aggressive "order getters" (or "hunters") that proactively plan new service offerings, market those offerings in creative ways, and look to differentiate themselves from would-be competitors via not only price where possible, but also hometown presence, service quality and responsiveness. Similarly, while regulated cost recovery mechanisms remain important for rural telcos to serve many areas and remain an essential aspect of both public policy and NTCA advocacy, efforts should be considered to minimize reliance upon those to the extent possible through innovation in business strategies. Thus, as discussed further below, the Futures Task Force believes a proactive change in the sales culture within rural telcos is a predicate to innovation and success, regardless of the specific characteristics, challenges or issues faced by individual companies.

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2. A Matrix of Characteristics, Challenges, Issues and Opportunities

As noted earlier, the Futures Task Force considered, but ultimately rejected, the notion of developing a "typical telco" given the diversity arising in the industry driven by the varied challenges and issues first glimpsed by the 1995 Futures Committee in the Project 2005 White Paper. Although a long-standing adage in the rural telecom industry observes that the companies are called independents for a reason, this has perhaps never been more true than today where evolution in technologies and consumer preferences and competitive pressures make it impossible to identify a "typical telco." Not only do geography and terrain differ, but one company can offer an entirely different product mix than a neighbor only tens of miles away and employ an entirely different business plan for growth. Indeed, for this reason, the Futures Task Force believed that it would be difficult even to identify several permutations of telcos in today's more dynamic telecom environment. Moreover, the Futures Task Force considered it important to challenge firms to some degree to consider ways of differentiating

themselves—to gain insight into how they differ from one another in and to prompt critical thinking as to whether different approaches might help overcome challenges and find new opportunities. The challenges and issues and characteristics identified by the Futures Task Force thus represent a means of allowing the community of rural telcos to self-select and create their own unique profiles.

At the same time, the Futures Task Force noted, and thought it essential to highlight, the remaining commonality among and shared heritage of rural telcos. Even as they have evolved in different directions as parts of proactive business plans or in response to challenges in their markets, these firms sit atop a common foundation and still do share some common challenges as compared to others in the telecom industry—whether cooperatives or commercial operators, they were formed to address rural community needs for vital communications links that were not being addressed, and they all continue today to serve areas that are, in significant part, deeply rural and present difficult business cases for investment and operations. From the perspective of the rest of the telecom industry then, and policymakers too, rural telcos look quite similar and subject to common problems—such as how ultimately to achieve and sustain universal service in areas that would not be the first choice of commercial firms looking to enter and invest in new markets.

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In developing the matrix, the Task Force settled first upon a sizeable list of characteristics that might differentiate telcos and thereby allow them to start to self-select their respective profiles, including:

1. Geographic Size of Footprint
2. Addressable Market Size (Including Reasonable Opportunities for Expansion)
3. Company Size (Total Revenues)
4. Company Form
5. Competitor Presence
6. Access to Middle Mile Facilities
7. Technology Mix
8. Service Mix/Lines of Business
9. Reliance on Support/Regulated Revenues
10. Common Challenges Among All Telcos

Upon further reflection, however, the Task Force recognized that identifying so many characteristics could complicate, rather than assist, the use of this work product. Even if it might accurately depict the diversity of telco operations, putting so many variables into consideration made the analysis more cumbersome and was likely to yield diminishing returns in trying to process all such information. Therefore, the group decided it best to reduce and revise the list to focus on a few of the most relevant characteristics that would seem likely to differentiate rural telcos from one another; this reduced list of six most determinative characteristics now forms the matrix attached to this report:

1. Overall Density of Areas Served
2. Addressable Market Size (Including Reasonable Opportunities for Geographic Expansion)
3. Company Size (Total Company Revenues)
4. Relative Ratio—Business:Residential Customers
5. Competitor Presence
6. Reliance on Support/Regulated Revenues

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The group then identified the following categories of challenges and issues that telcos of different kinds would likely face in providing services and investing in networks in rural areas:

1. Competitive & Consumer Challenges/Issues—e.g., extent of competition in a market; residential vs. business mix and relative sophistication/expectations of customer base
2. Technological Challenges/Issues—e.g., equipment, network investment choices, maintenance needs
3. Financial (Nonregulatory) Challenges/Issues—e.g., ability to attract or otherwise generate capital, cost containment, market prospects, scale and scope considerations
4. Regulatory Challenges/Issues—e.g., susceptibility of market to regulatory dependence or interference, barriers to deployment or costs of regulation
5. Other Operational Challenges/Issues—e.g., employee recruitment/retention/management, approach to sales and marketing, demographics of marketplace

These five challenges and issues are then mapped to each of the six characteristics above in the attached matrix to give rural telcos a reference guide of how each could manifest for different kinds of companies. But, as mentioned earlier, the matrix also then includes a column outlining potential opportunities—a preliminary indication of the sorts of silver linings that operators might consider or find lurking within various kinds of challenges confronted.

In addition to providing sample case studies as part of this report to show what kinds of opportunities may exist (or may not always pan out), the Futures Task Force has suggested surveying the NTCA membership to determine how the companies self-select based upon the characteristics in the matrix and to then use that information to promote sharing of information across the NTCA membership at a granular level about lessons (opportunities) gleaned from the experiences of other firms that share

common characteristics. Indeed, the notion of identifying opportunities (and urging sharing of stories and experiences to identify more and drill down on them) was ultimately the most important objective of the Task Force. The Futures Task Force wanted not only to allow rural telcos to self-identify their types and consider the problems they face, but to provide a practical tool for strategic planning and information sharing based upon that self-assessment.

Finally, it is the sincere hope of the Futures Task Force that the matrix and other aspects of this project can and will become an iterative document. Particularly as to the identification of opportunities and further case studies, this effort will only benefit from additional guidance and input from NTCA members using the document to chart their own course and report back with information on other lessons learned—successes or failures—that can help inform other similarly situated operators in the future.

3. Sample Case Studies on Opportunities: Lessons Learned From Successes—and Failures

A. Sample Case Study 1 — Bundling Services for Success

Telco Profile

- Density: Low
- Addressable Market Size (Including Reasonable Opportunities for Expansion): Low
- Company Size (Total Company Revenues): Medium
- Relative Ratio—Business:Residential Customers: Low
- Competitor Presence: Low
- Reliance on Support/Regulated Revenues: Medium

Telco has been exploring creative product and service bundling practices to create a better sense of value for customers, to enable customers to obtain broadband services at affordable rates while addressing declining demand for voice services, and to increase telco's average revenue per user (ARPU).

Like many smaller providers, Telco has faced challenges in the form of consumers choosing to use their cellphones as a dial-tone replacement for their landline services where signal coverage is sufficient and reliable. Unfortunately, due to the structure of regulated cost recovery mechanisms, offering internet-only services remains difficult for Telco (much as is the case for other smaller providers). Therefore, Telco has been working to structure creative service offerings that provide continued consumer access to telephone service within bundles that can then deliver the benefits of robust and affordable broadband for consumers; in these cases, telephone service may be included, for example, for “free” within a bundle. At the same time, Telco's product development and marketing strategy has looked to structure bundle offerings to present greater value from middle- or higher-tier offerings above more basic plans, and thereby incent consumers to procure more robust and comprehensive bundles of services.

In particular, Telco focused its bundle marketing and development on encouraging those consumers procuring lower broadband speeds to upgrade to a higher minimum broadband speed where available. These bundles include comparable pricing as a baseline to the existing services, but with voice and unlimited long-distance calling features as well and with additional incentives to upgrade to even higher speeds for an incremental additional amount per month. After one year of engaging in this case study, Telco has found that value perception—the perceived ability to get more from higher speeds and features than a basic plan—is driving growth, and that the bundle value proposition is also helping to overcome aggravation on the part of consumers who are still required to take voice service to obtain affordable broadband for regulatory reasons that are inexplicable to the average consumer. Telco has in turn realized material ARPU improvements through the bundle marketing strategy, as consumers often opt for higher speeds and greater bandwidth at an incremental price when selecting to move into a new bundle.

These efforts were not without work, however. Telco needed to invest a substantial amount of energy and planning time to structure the right bundles, and to ensure its bundling strategies would be perceived as responsive, rather than disruptive, to consumer needs and expectations. Telco also needed to undertake a significant training and education effort within its organization, particularly with customer service representatives that were historically more inclined to triage customer concerns or take orders than to focus upon “offering customers greater value”—even if that value might translate to the consumer paying more per month.

B. Sample Case Study 2—Multitelco Creation of a Statewide Fiber Network

Statewide Network Telcos' Profiles

- **Density:** Low Individually; Medium to High in Expansion Areas
- **Addressable Market Size (Including Reasonable Opportunities for Expansion):** Small Individually; Very Large in Expansion Areas
- **Company Size (Total Company Revenues):** Very Small to Medium Individually; Large When Combined
- **Relative Ratio—Business:Residential Customers:** Low Individually; High in Expansion Areas
- **Competitor Presence:** Low Individually; High in Expansion Areas
- **Reliance on Support/Regulated Revenues:** Medium to High Individually; Low in Expansion Areas

Statewide Network is a limited liability corporation operated and formed by all of the rural telcos operating in the state. The founding telecommunications providers recognized the need for a collaborative approach to achieve a scale larger than their respective territory boundaries.

Statewide Network and its owners have 40,000 miles of fiber optic facilities deployed across the state. The owner telcos have a collective total plant investment worth more than \$1.2 billion, and they have invested more than \$100 million per year in fiber construction for each of the last five years.

Statewide Network provides its owners with the capability to compete for and deliver middle- and last-mile solutions to commercial and governmental entities in the state. In addition, Statewide Network offers customers a single point of contact for ordering, provisioning and billing to the regional banks, businesses and hospitals it serves. Statewide Network also gives its telco owners the ability to respond to major Requests for Proposal (such as mobile wireless backhaul) through its broader geographic reach and additional scale.

Beyond revenue opportunities, Statewide Network helps its owner companies manage transport/transit costs by serving as a collective buyer of IP transit services, which creates greater scale and helps to reduce each individual owner company's upstream internet cost.

C. Sample Case Studies 3A and 3B—Partnering to Build Broadband

3A—Partnering Through Outsourcing

Telco Profile

- Density: Low
- Addressable Market Size (Including Reasonable Opportunities for Expansion): Very Large
- Company Size (Total Company Revenues): Medium
- Relative Ratio—Business:Residential Customers: Low
- Competitor Presence: Low
- Reliance on Support/Regulated Revenues: Medium

An electric cooperative (Electric) had been trying to help its members get broadband services for many years; the Electric's members are located in areas served by a larger incumbent provider that had not invested in upgrades to its network for effective broadband service. Electric had experimented with satellite internet and some fixed wireless technologies to help connect its members. Recognizing that satellite and fixed wireless were not providing effective long-term solutions, Electric considered other measures. The Electric Board of Directors knew greater financial support and a partner would be important in taking a more robust approach to broadband.

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In 2015, Telco staff started monthly meetings with Electric to scope out the project. Near the end of 2015, Telco presented a sample \$4 million pilot project to the Electric board and management, with 50% of the funding assumed to come from grant funds under a state broadband program. Telco presented the operational and financial options to Electric in the form of wholesale and retail models. Electric ultimately applied to the state broadband program, seeking a grant for a FTTH project that would serve 800 locations with an estimated 50% take rate. In January 2017, Electric's application was approved, with 50% of the project funded by state grant.

The next month, Telco and Electric started clearly defining and aligning the structure of their partnership with the "seed capital" now in place. Moving quickly but carefully through this process was important so that all terms could be settled prior to construction in the spring. Electric's priorities as an electric cooperative included: (1) ownership of the assets; (2) providing broadband and phone services to its members; and (3) equitably sharing the risks and rewards with Telco. Telco's priorities as a rural telecom provider were: (1) properly building the network; (2) operating the network as efficiently as possible; and (3) not being required to provide any capital of its own to help build the network.

Although each party's third priority conflicted to some degree with the other's, Electric and Telco reached an understanding within a few months. Under the framework, Electric is responsible for retail broadband services, billing the customer and providing level 1 support during regular business hours. Meanwhile, Telco provides wholesale bandwidth, as well as level 2 and 3 support and provisioning. In addition, Telco manages the actual construction of the network, and Telco will provide retail voice service directly to the customers so that Electric does not need to pursue telecommunications certification or be subject to telecom regulation.

The final contract was not signed until July 2017, but the parties worked in good faith and under the basic terms referenced above so the project could commence during the construction season. Although there was some risk to this approach, the parties collaborated to meet deadlines and move the project forward during this period by configuring equipment, conducting testing, installing software and undertaking training.

Electric has seen higher-than-anticipated adoption in connection with the project already. The first customer on this network was activated in December 2017, and more than 340 customer contracts have been signed for services within the first sales campaign. The Electric experience was another confirmation to Telco of its positive experience in such partnerships, and provides another path for future growth beyond traditional provision of regulated services. As Electric is likely to apply for additional funding to expand its services to other cooperative customers in its footprint, Telco is already established as a trusted partner—and the Electric experience provides Telco with additional testimonials for work with others that may consider broadband expansion in the future.

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3B—Partnering Through Shared Network Facilities

Telco Profile

- Density: Medium
- Addressable Market Size (Including Reasonable Opportunities for Expansion): Large
- Company Size (Total Company Revenues): Large
- Relative Ratio—Business:Residential Customers: Medium
- Competitor Presence: Medium
- Reliance on Support/Regulated Revenues: Medium

Telco is partnering with multiple electric cooperatives (Electrics) in a transaction combining assets to create mutual benefit. As background, the Electrics utilize a statewide fiber transport network operated by their jointly owned Generation & Transmission Cooperative (G&T). Although G&T provides the Electrics with transport services to substations, certain portions of the statewide network rely upon leased circuits rather than facilities that are owned or the subject of long-term IRU arrangements. Meanwhile, Telco wished to expand into new competitive markets, but distance between new markets and a lack of existing network facilities to reach those areas severely limited the ability to execute upon expansion.

G&T approached a group of smaller telecom companies, including Telco, about collectively leasing existing fiber miles from the telecom providers to connect the Electrics' headquarters in exchange for providing Telco and the other telecom providers with access to newly built G&T fiber miles that could facilitate expansion into new markets. Leveraging access to the existing resources provided by the smaller telecom providers and then building new fiber miles of its own outside of the smaller telecom companies' footprints where no existing facilities were available, G&T was able to connect its statewide network to eight new Electric headquarters. In return, Telco and others in the smaller telecom provider group gained direct dark fiber access to five new competitive markets without any capital expense. The newly forged relationship also opened the door for other conversations with individual Electrics across the state as well as increased access to G&T's statewide fiber network.

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D. Sample Case Study 4—Municipal Public-Private Partnership

Telco Profile

- Density: Low to Medium (unserved broadband areas in county)
- Addressable Market Size (Including Reasonable Opportunities for Expansion): Medium
- Company Size (Total Company Revenues): Medium
- Relative Ratio—Business:Residential Customers: Medium
- Competitor Presence: Low
- Reliance on Support/Regulated Revenues: None (not federal, but municipal grant provided)

Telco's first attempt at a “public-private partnership” came in the form of a county seeking providers to help deliver broadband lacking access to higher-speed broadband services. Telco first performed a feasibility study to help the county understand the broadband economics of building networks and delivering services in the area, and ultimately reached an agreement to pass more than 5,000 locations subject to receipt of a sizable grant from the county equaling 20% of the project.

Although construction continues and new customers gained include major anchor institutions in the county, Telco learned several lessons from this initial partnership project that have informed future efforts of a similar nature. For example, Telco now charges for initial feasibility studies given the recognition that a county or other partner could use such a study to contract with another network operator after the fact. In addition, the Telco believes that a higher level of matching/grant from the local government partner should be sought in the case of rural builds in unserved areas. Finally, Telco has learned that it is important to set reasonable expectations with respect to the amount of time required to complete network construction; those not familiar with deploying broadband infrastructure may assume these are projects that can be done in a matter of weeks, rather than months or even years depending upon the size of the project, phases of construction planned, and environmental and historical approvals required.

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4. Innovation Through a Changing Sales Culture

Even as much of this report is devoted to helping a diverse industry of rural telcos “chart their own courses” toward success and providing case studies that aim to stimulate thought and debate, the Futures Task Force coalesced around one theme as well that it thought should be common—even if it is not today—to all telcos: the need to pursue innovation aggressively through a dynamic and changing sales culture.

“Nothing happens until somebody sells something.” Although such words may clang as the arrogant or self-serving claims of a sales department in the ears of those that work in operations or other parts of the telecom industry, the Futures Task Force asserts that there is much truth in this phrase. Without sales, a company cannot grow and will have difficulty sustaining its operations into the future. Thus, supporting a sales culture and a sales organization that drives innovation is not just the responsibility of the sales team—it is a core part of every department and every employee within the rural telco.

Supporting a sales culture and a sales organization that drives innovation is not just the responsibility of the sales team—it is a core part of every department and every employee within the rural telco.

How does a telco develop a sales culture? It will not happen in a blink of an eye. It is a long and deliberate progression. It needs to be well planned and well executed for staff to fully understand and support the need for the change. Naysayers will exist, perhaps permanently. Some may never leave, and others may convert to naysayers over time. But thoughtful execution is key to success, along with an appropriate timeline to expect the transition to occur.

One way to start in considering such a changing of sales culture is to ask a fundamental question: if one were coming in to take charge of a telco that did not have a proactive sales culture, what is the first thing one would do to make the change? Ideas typically range from changing people to changing processes, and in the rural telecom industry, one goal the Futures Task Force articulated was to attempt to build a sales culture and related operation that assumed regulated support did not exist; while it is recognized that this is not a practical reality in some areas to be served, to be sure, aiming toward that goal may be an effective way of stimulating a more proactive sales and customer service culture throughout the company.

As a practical matter, the Futures Task Force suggests five specific areas to focus on when seeking to innovate and advance through development of a more proactive sales culture.

- 1. Define sales culture and its importance in the organization.** If telco leadership is unclear of what a sales culture means, it cannot implement one within the staff. Clear expectations of a sales culture often include quotas and a goal-driven sales team, operational key performance indicators to support a sales team, and the notion that everyone in the company is involved in making sales and customer service a success. An excellent and well-trained Sales Manager or a consulting group that has transitioned organizations in the past toward a more proactive sales culture can help with this if leadership believes additional resources are needed to define and drive such change.
- 2. Hire hungry, hungry people.** When searching for the ideal sales representatives, they should be hungry—people who are always looking to make more and do more. A company should look to hire (and retain) the person that needs to sell more each month to continue to make more in commission. Firms should consider structuring compensation in a way that challenges employees to achieve their full potential to push sales, and ask questions that help identify this drive in the interview process.
- 3. Sales people are not always good at detail. Get ready, Operations team!** As successful sales representatives are focused on closing deals and moving onto find the next one, that leaves little time for details. Instead of fighting this tendency, rural telcos should recognize it is going to happen, embrace it as part of a proactive sales culture and plan accordingly throughout the rest of the organization. A prepared telco should identify an operational “go to person” for each sale to help deliver on the promise that each sale represents, seeing it through collection of the details through preparation of the order for activation. Communications with these operational teams and the rest of the organization should highlight and recognize the value that each group brings to the table, to minimize the prospects for frustration or surprise.
- 4. Develop marketing, campaigns and promotions 12 months in advance.** Marketing plans are key to being able to motivate a sales team with promotions and special incentives and otherwise keep momentum high. An annual planning cycle with a “kickoff” event allows a telco the proper amount of time to plan for and review goals for the sales team, and it enables company-wide celebration of “big wins” against the prior year’s goals.
- 5. Sales culture requires a never-ending process.** Implementing a sales culture is a job that is never done. In addition to keeping sales representatives pointed in the right direction and motivated, it is essential to help the rest of the organization to see that they share in sales success. In particular, a new or greater focus on sales may cause resentment in other parts of the organization, and the more that a telco can be prepared for such concerns and head them off by showing how “the rising tide lifts all boats” and celebrating the efforts of many groups, the better the buy-in will be across the organization.

5. Conclusions: “Charting One’s Own Course”

Although the 1995 Futures Committee report presented much like a 10-year strategic plan for rural telcos to consider during a time of impending competitive and technological changes, those changes have clearly taken root in the telecommunications industry, and (along with ensuing shifts in consumer expectations and demands) this evolution made it difficult, if not impossible, for the current Futures Task Force to develop “one-size-fits-all” strategic planning guidance for telcos in today’s environment. For these reasons, this report is presented not as a prescribed course of action or singular strategic plan, but instead as identification of various characteristics that may map to individual company challenges and issues and suggested opportunities for firms to consider in responding to or even leveraging challenges before them. NTCA and the Futures Task Force hope that this document drives productive conversations within and among telcos regarding common concerns with respect to issues, opportunities, lessons learned, and company culture shifts that can contribute to the successful evolution of the rural telecommunications industry through 2028 and beyond.

This report is presented not as a prescribed course of action or singular strategic plan, but instead as identification of various characteristics that may map to individual company challenges and issues and suggested opportunities for firms to consider in responding to or even leveraging challenges before them.

APPENDIX A
FUTURES COMMITTEE
“PROJECT 2005”
WHITE PAPER (1995)



CRONIN COMMUNICATIONS CONSULTANTS

PROJECT 2005

WHITE PAPER

NTCA FUTURES COMMITTEE

1596 Sunshine Tree Blvd. Longwood, Fl 32779
407/682-1792
407/682-7109 (FAX)

Project 2005

White Paper

NTCA FUTURES COMMITTEE

What Is The Purpose Of This White Paper?

1. To provide a picture of the business that the telephone company will be in the year 2005.
2. To provide a discussion on the major hurdles that the telephone company will have to jump to be successful in this new business.
3. To provide a discussion of the strategic planning process to demonstrate how this strategy was arrived at and the logical progression of thought that produced it.
4. To provide a general model of strategic planning to expose small companies to the process, and provide a starting point in their own thinking about how the process should be done.

What Is Project 2005?

Project 2005 is an attempt to develop a strategic direction for a fictitious, average sized telephone cooperative. This strategic plan would attempt to define the business that this company will be in the year 2005 and describe some of the obstacles that stand in the way of the company's survival.

The goal is to define a potential strategic direction, and to examine relevant issues critical to the success of the business.

Even though the target of this effort is to create a plan for a telephone cooperative, the principles presented in this paper will apply to all small commercial and cooperative telephone companies regardless of how they are organized.

How Did Project 2005 Begin?

Project 2005 began in a Future's Committee Meeting in San Francisco in February of 1995. The Future's Committee was wrestling with issues pertaining to where the business was heading in the future. Cronin Communications Consultants suggested a focused systematized effort to identify the businesses that telephone companies would be engaged in ten years and to identify the significant changes that the telephone company would need to make to be successful in these

new businesses.

Cronin Communications Consultants agreed to guide the committee through a Strategic Planning Process that would draw upon the experience of the committee in formulating an accurate picture of the future.

Who Is On The Planning Team Of Project 2005?

The planning team consists of the following members of the Futures Committee:

Dan O'Connor	Hancock Rural Telephone Corporation - CHAIRMAN
Sallie DeForest	Hamilton County Telephone Cooperative - VICE CHAIRMAN
Dave Bolton	NTCA - ADVISOR
Jeffrie A. Adams	Yadkin Valley Telephone Membership Corporation
Russell Price	Atlantic Telephone Membership Corporation
Dave Herron	West Carolina Rural Telephone Cooperative, Inc.
John Selmon	Ringgold Telephone Company
Algene Goatley	West Kentucky Rural Telephone Cooperative
Randall Singleton	Bledsoe Telephone Cooperative
David Fox	Westphalia Telephone Company
Jerry Payne	McDonough Telephone Cooperative
Nick Prom	Benton Cooperative Telephone Company
Don Synders	Splitrock Telecom Cooperative
Gil Crouse	Rainbow Telephone Cooperative
John Bushnell	Northeast Missouri Rural Telephone Company
Ray Henegan	Cameron Communications Corporation
Don Lawrence	Stayton Cooperative Telephone Company
Doug Senner	Mid Rivers Telephone Cooperative
Van Cook	Hill Country Telephone Cooperative
C.M. Muras	Colorado Valley Telephone Cooperative

Why Is Project 2005 Needed?

The complex changes being forced on the small independent telephone industry are creating significant adjustments that the small company must make to remain competitive. The Committee felt that a change in focus was needed to draw attention to "solution based thinking" as it related to complex change rather than drawing attention to the difficulties alone that these changes would create.

The committee hoped that Project 2005 would be a rallying point. We hope that the views in this paper will spark debate and that other committees of NTCA will pick up where this paper leaves

off in trying to accurately predict where the industry will be in 2005, and provide additional guidance on how the industry should prepare.

Why A Strategic Plan?

Reaction based thinking will look at the current trends in the market place and try to predict how it will impact the business in the future. Proactive strategic thinking will attempt to define the desired business of the future and then figure out how circumstances can be manipulated to make that desired future a reality.

These two approaches are significantly different. One is a future influenced by change. The other is a future where an attempt is made to influence change to meet a desired goal.

This does not mean that the environment the telephone company operates within should not be considered. Environmental issues will impact the future of the business. The key is to work within the environment as much as possible to create the desired future rather than letting the winds of change drive the business. As much as possible a telephone company wants to stay ahead of change rather than adjusting and reacting to change. But the environment still needs to be considered.

It would not make sense to attempt a strategy where there was clearly no feasible way to succeed. A strategy must be within the range of successful achievement. A company needs vision, not dreams or hallucinations. And visions only have value if they can be achieved.

Environmental issues then play a role in strategic thinking in that they help to define what is "possible" in the planning cycle. They are helpful and necessary because they add reality to the strategic thinking process. But they are not driving the process. They are only peripheral factors to be considered and monitored. The driver is analysis, creativity and innovation that create the desired end goal.

Strategic Planning then is a creative proactive process conducted by members of a planning team that defines the desired business future of the company, determines resources necessary to successfully achieve this future, then takes appropriate action to insure that this future is created.

This process is normally conducted every two years. But given the significant and sweeping changes taking place in the industry today most companies should consider an annual process.

The most significant work in the strategic planning process is determining what the company must do and how the company must change if it is to succeed in its desired future.

What A Strategic Plan Is Not!

While establishing a mission statement is part of the strategic planning process it is not the end of the process, it is nearly the beginning.

Many companies may kick off strategic planning with a weekend retreat, but the process certainly cannot be completed in a weekend. In fact the process takes several months to nearly a year to complete. Research and Strategic Business Modeling will take the greatest amount of time.

The most tangible evidence that a strategic plan has been completed is when it finds its way into the company's annual expense and capital budgets.

A strategic plan is not a long range plan. Long range plans tend to be reactive rather than proactive. They normally take historical data and project future growth based on these historical trends.

Who Is All Star Telephone Cooperative? What are All Star's Vital Statistics?

All Star Telephone Cooperative is a fictitious average sized telephone cooperative of just under 4,000 access lines. It will serve as the model for the development of a strategic plan. The assumptions that have been made concerning All Star are based upon a review of similar size cooperative telephone companies and from our experience in developing strategic plans with our clients.

All Star was formed in 1959 to provide telephone services in an area that was unfranchised by a commercial local exchange telephone company. Its 20 employees provide telephone service to a primarily low density, rural, agriculturally based serving area. All Star's customers are served by a digital switch and the outside plant facilities are 92% copper with fiber only existing in the interoffice connections between the host switch and remotes.

The nearest public switched (IXC POP) network point of connection is 20 miles away in a community served by an RBOC. All Star provides 30% of the cable facilities to transport the originating and terminating interlata traffic for the various IXCs. The RBOC provides the rest.

Historic access line growth is approximately 4% annually, although it is expected that this growth should accelerate over the next several years.

All Star is an average schedule toll settlement company with low, heavily subsidized local service rates. They do not receive Universal Service Fund subsidy. 64% of the revenues of this company are the result of access charges paid by Interexchange Carriers.

Enhanced service penetrations are 42% (# of features / eligible access lines) and 78% Touch Tone service. 95% of the subscribers have one party service and 10% of the access lines are classified as business. These business lines contribute 25% of the local service revenue.

All Star is an REA borrower and carries an equity ratio of 51%. This equity ratio has been significantly improved over the last ten years due to the efforts of the General Manager and the Controller.

The Cooperative is subject to the tariff review of the state public service commission. The last general local service rate increase was approved in 1984.

The customers of All Star Telephone Cooperative have enjoyed a satisfactory level of service at low rates compared to surrounding communities served by commercial telephone companies. There has been a consistent policy of returning annual capital credits from the earnings of the Cooperative to the members. The membership's attitude can best be described as uninformed and neutral concerning the management of the Cooperative and the level of service provided. Many members feel that the services provided in larger communities are superior and most do not recognize the bargain in terms of local service rates they are enjoying. The biggest complaints from the membership involve the need for an expanded local calling scope and the existing lack of CATV service throughout All Star's rural serving area.

Demographically the customers of the All Star Telephone Cooperative stack up as follows:

All Star's serving area is 20 miles from any population center of over 20,000 in population.

40% of the residents of All Star's serving area are employed in Midway, a larger community served by a large independent LEC. Typical commute is 8 miles one way.

The residents of All Star's serving area utilize the media from the nearest large town (Midway). There is no local TV or radio, but there is a local weekly newspaper.

Minority population is 4%.

PC penetration into the home is 25%, with 7% on-line users.

81% own VCRs.

Annual net income has been in the range of \$800,000 for the last 3 years.

The annual capital budget has averaged \$ 1.1 million for the last three years.

Why Was All Star Selected As A Vehicle?

The future's committee wanted a company of average size upon which to base the Strategic Plan. They wanted the illustration to reflect on the greatest number of companies. They wanted the data and the outcome of the committee's efforts to be relevant to many smaller companies who face an uncertain future, and to provide a model after which these small companies could pattern their own Strategic Planning efforts.

All Star's Organization Structure

The Board of Directors is elected from the membership. It consists of 7 members of the served community, which consists of 4 farmers, a school teacher, a druggist, and a local realtor.

The cooperative is managed by a General Manager who reports to the Board of Directors. This individual is responsible for the direction of the day to day business of the cooperative, including both the telephone side and involvement in a cellular partnership with two other telephone companies.

There are three additional management staff. They include an operations manager, office manager and a controller.

All Star's Geographical Location

The cooperative serves a 221 square mile area in a Midwestern state. Its serving area completely surrounds (fried egg) the City of Midway, a community of 20,000 access lines served by a large independent LEC. They have an average density of 16 subscribers per serving square mile. The serving area includes the entire area of one county and portions of two others.

A portion of the cellular RSA operation includes All Star's local exchange serving area.

The nearest large community (other than Midway) is an RBOC served area approximately 20 miles from All Star's nearest border.

The Environment

The telephone business operates in various environments that will effect its future and its business. The committee discussed many of these environmental issues and then selected those the committee thought would most impact All Star's business over the planning period.

Global - Global issues are those general trends that will affect the users of telephone

service either nationally or on a world wide basis. Although many trends were discussed, the following describes those trends the committee felt would have the greatest effect on business.

Growth of PC Technology - The personal computer will continue to influence the development of the telephone network. LANs (Local Area Networks) will continue to spread linking people on a city-wide, state-wide, and national basis. Growth in the use of and exposure to the internet will spur the growth of PCs for both residential and business use. This expansion of technology will continue to place pressure on the telephone network for higher network access speeds and wider bandwidth.

Aging Population - As babyboomers move toward upper -middle age, the demographics of consumers is aging. The needs of this large group of consumers who are more computer literate and more sophisticated as it relates to their demand for products and services will strongly influence products and services offered by small telephone companies.

Business Becoming Very Complex - As the telecommunications business is transformed into the entertainment, communications and information business, the business itself will become far more complex to manage and operate. Priorities will become more difficult to manage, and the business will become far more specialized. These complex changes will require far more training and specialization.

Migration Of Population To South, Northwest and Rural Areas Will Continue - Improvement in communications technology, and quality of life issues will spur the growth of migration to rural areas served by independents. Wireless communications, PCs, and the growth of work at home will make rural areas more accessible.

Growth In Work, Education, And Entertainment At Home - Convergence in technology will permit working and getting an education at home. Return to family values and the desire to have stability in the home will continue to add pressure to the growth of work-at-home, which will in turn push other at-home services. This coupled with the steady migration of the population to rural areas will place growing pressure on rural and suburban telephone companies to provide state of the art service.

Industrial Environment

Trend Toward Joint Ventures With Others - The industry is exploring joint ventures, in particular larger telecommunications giants trying to figure out how they can carve themselves a piece of the entertainment business. Mergers and joint ventures are creating unusual partnerships between companies that under normal circumstances would be competitors.

Open Network To Others - Regulatory mandates will require that telephone companies open their networks to all comers who have an interest in using one or more parts of the local loop to provide complementary or competing service with the telephone company.

Trend To More Market Driven Business - With the spread of competition and the expansion of products and services that will be offered over the network, telephone companies will need to be more aware of market needs and willingness to buy services. Telephone companies will have to be more in tune with the needs of the customer and finding ways of meeting these needs.

Expansion From The Core Business - The core business for the present is the cash cow providing necessary capital for the business to grow and expand into new markets. The path of expansion is through the core business not separate from it. Care will be given to insure the strength of the core business throughout the planned expansion.

Technical Environment

Growth In Computer Speeds Will Place Greater Demands On Network - Internet access and demand for access to other databases will force telephone companies to increase network speeds and bandwidths.

Switches Will Become Obsolete More Quickly - As switching equipment approaches broadband and optic switching, technology changes will come at a much faster rate. Switching equipment life spans will decrease dramatically, due to faster obsolescence.

Wireless Communications Will Take Market Share - Although wireless communications has caused the whole market to increase in size, as the price of wireless communications decreases and use of the technology grows, it will impact the market share that telephone companies hold.

Number Portability - As local competition spreads and wireless communications becomes more seamless with wireline services, number portability will remove a barrier from the customers migration from dependence on the telephone company.

Difficulty In Competing Technically On Cost Of Equipment - With Bell and AT&T, and MCI fighting over the local service business of the nation the number of end office switches will increase dramatically. Companies like AT&T who own their own manufacturing company, and the Bell companies who have volume purchase agreements with the major manufacturers will be able to buy switching equipment at deeply discounted prices. Independent companies may find it very difficult to compete for some services with larger companies because of the cost of switching equipment.

Convergence - The convergence of television and telephone and the computer over the

telephone network will force telephone companies into the era of broadband services, much in the same way that demand for database services is forcing telephone companies into the Internet access.

Congressional - With both houses of congress having passed their versions of a revised Telecommunications Act, it is highly likely that a new Telecommunications Act will come from Congress by the end of 1995. It is anticipated that the doors to competition in the local loop will be completely open, and free cable television, local telephone companies and long distance carriers to enter each others business.

Regulatory Federal - Due to recent court cases on CATV/Telco cross ownership, and the impending legislation coming from Congress, as well as the republican policy of less government regulation, it is likely that there will be reduced intervention by the FCC into telecommunications services. This will have both positive and negative effects. Less regulation will mean more freedom to enter markets that are of interest to the telephone company. But it will also mean less support for universal service and less regulatory protection for small companies.

Regulatory State - State regulatory agencies will find their powers reduced by pending legislation from Congress. While states may try to retain some powers and control, Congress will pre-empt states from exercising controls that would inhibit or limit competition. Many states are in the midst of their own regulatory reform, reducing significantly their role in governing telecommunications, and reducing their involvement in the protection of small companies.

Reduction in Universal Service Funds - Funds provided to high cost companies will be reduced. Pressure from IXC's and reduced regulation will cause supports for universal service to be reduced.

Reduction in Access Revenues - Competition, deregulation and pressure from carriers will cause access rates to be reduced, perhaps as much as 40% during the next 7 years.

Deaveraged Toll Rates - Competition will force carriers to offer lower rates to high population centers. Deaveraerging of wholesale long distance rates has already begun, and retail will follow suit.

Rates Moving To Cost - Competition will force all of the telephone company rates to move more to cost. Local loop resale will disadvantage incumbent carriers as long as loop rates remain below their cost.

Internal Environment

Increased Demand On Employee Skills and Training - Competition will force higher

standards of service that will require improved productivity and responsiveness to meet customer demands. Increased technical sophistication of service will require higher technical skills than currently exist.

Organizational Structures Will Change To Be More Competitive - Telephone companies will restructure organizations to become more service and marketing/sales oriented.

Difficulty To Get Employees To Work As A Team - Competition will require telephone companies to be more price and service competitive. Force reductions, and demand for increased productivity will meet with resistance to labor unions and hour employees who will have to work harder for the same or less compensation.

Increased Demand For Planning To Manage Change - Complex changes in the business and a transition in the basic business from telecommunications to entertainment, communications and information, will require significant planning as a means to cope with significant changes that will be thrust upon organizations.

Pay Structures To Change For More Competitive Market - Current salary structures with most small companies are not sufficient to attract technical and managerial talent to most rural areas. Most small companies set wages based on prevailing wages in the community and not those wages that are established in the industry. Most companies do not have commission structures for sales people that are necessary in a competitive environment.

Environment Considerations - Analysis

The impact of these various environment considerations indicate that telephone companies face increased competition, narrowing margins, and significant pressure to reduce cost and at the same time dramatically improve service and productivity. Shrinking revenues will force companies to seek new services and products that will produce additional revenue, and to focus more on marketing and sales as a way to retain existing customers and find new ones.

Application Considerations

Application considerations are related to the application of the strategic plan to the telephone company. When the plan is put into place it will have an impact on certain people, "stakeholders." Care must be given to the impact that the plan will have on various stakeholders. Care should be given by the company to define who the significant stakeholders are and insure that they are involved in the process to insure their support and buy-in to the plan.

Employees

Employees will be concerned about how changes in the business will affect them. Cost reduction, pressure to improve productivity and increasing standards of work will put significant pressure on employees to change. If cost reductions require force reductions fear about the impact of change on them will be significant. The more management can involve employees in the strategic planning process, the less resistance to change will be present.

Board

Cooperative board members who are elected at the pleasure of the members will have a significant stake in the outcome of a strategic plan. Their involvement early on in the process will insure their support and buy-in. Radical changes in rates, and significant changes in service will impact directors and their relationship with members.

Customers

Planning related to public relations is key to winning support of members during these crucial changes. Customers will need significant education if they are to understand the challenges of the business that telco faces and how it will affect them.

Suppliers and Vendors

Transition to broadband and entertainment services will require a substantial shift in technology. Understanding the technology available, and vendors having an understanding of the direction of the company will allow suppliers to plan for requirements of the company.

Getting Ready For Strategic Planning

The Board of Directors - Although the idea of strategic planning originated with management, cooperative management should recognize that support from its board of directors is imperative to the success of the planning effort. Managers who attempt the strategic planning process without first having this board support may run into a 'not invented here' attitude from the board. An individual director or a small committee of the board should participate in the process from start to finish to insure board support.

The Company's Management - Key management people who have control over the various aspects of the company operation should also be involved in the strategic planning process from the beginning. They should be involved in making the decision to initiate the process and should be asked to make a commitment early in the process to support it through its conclusion.

Others, managers and supervisors, although they may not ultimately be on the planning team, should be kept informed about strategic planning activities, and should be given input into the process. Again the goal is to involve as many management people in the process.

The Planning Team - The planning team should consist of all key managers and board members who represent the primary stakeholders who will be critical to making certain that the strategic plan is achieved.

This committee should have an official charter from the board and management, and be given broad authority to carry out the development of the plan.

Consensus Of Values And Philosophy

Nothing will derail the strategic planning process faster than difference in business philosophy between management and the board and between managers on the planning committee.

The degree of risk that various managers and board members will be willing to take is one of the critical philosophies to be dealt with. If a strategic plan is put together and there isn't agreement on the level of risk the company should take, then there won't be uniform support for it. Very often in these situations the plan will die before it has an opportunity to get underway.

Risk taking is only one of the "philosophy issues" that will keep a strategic plan from being implemented. There are others and time should be taken before the planning effort begins to reach consensus on these values and philosophies.

Strategic Futuring

Strategic Futuring is a creative process of deciding the business that the company wants to be in at the end of the planning period. It is not trying to guess where the business will be given the environmental considerations stated above. But it is trying to decide the business that you want to be in the future assessing environmental considerations, and your own intuitive guesses on where the opportunities in the business will be in the future.

The planning committee wanted All Star Telephone Cooperative to be in the communications, entertainment and information business as opposed to the telephone business, feeling that in ten years that technology, regulation, competition, and customer service demands would transform the business to this extent.

The Mission Statement

The Strategic Planning Committee approved the following mission statement for the cooperative:

In ten years, or sooner, All Star Telephone Cooperative will provide entertainment, communications, and information services (voice, data, and video) to residences and business customers in its traditional market area, in the state of _____, using advanced fiber and wireless network technology and operating management capabilities.

In addition, All Star will maximize the efficiencies and profits of the products and services that are based in and provided in its market area by selling those products and services at a wholesale and retail level in the town of Midway, which All Star's traditional market area surrounds.

All Star will improve the quality of life, grow its business to increase employment and contribute to the economic well being of the area and communities it serves by providing services and products equal to or superior to those found in nearby urban areas.

Strategic Business Modeling Process

Strategic Business Modeling is a process of taking the mission statement and adding definition. It is a process of developing goals and strategies with the ultimate aim of defining the specific business, products or services that will fulfill the company's mission.

The following steps are the main parts of the Strategic Business Modeling process:

Starting point is the planning team's selection of new lines of business and major assumptions for All Star's future.

Individual interviews with members of the planning team.

Formulation of mission consistent strategic directions.

Development of major platform objectives, assumptions, and costs.

Development of individual line of business assumptions and financials.

An assessment of the overall financial impact of pursuing the established strategic direction ie. financing requirements, net income, and cash flow impact.

The strategic modeling section seeks to take the mission statement and the business philosophy of All Star and to provide a tangible and financially based business strategy. The first step is a

translation of the mission into direction statements.

Each of these strategic directions is supported by one or more objectives that have been developed by All Star's management as a part of the strategic planning process. The purpose of these objectives is to provide specific targets to focus the organization and to permit the measurement of progress. All Star has elected a strategy that will allow the evolution of the organization from a telephone company to a primary information, communication, and entertainment provider consistent with the accepted mission.

Proposed Strategic Direction Consistent Objectives

Deploy an infrastructure platform that will allow the delivery of broadband services to 50% of All Star's customers by the end of the year 2005.

Maximize existing service cash flows to create new venture capital.

Develop new lines of business immediately that will provide both cash flow and strategic positioning for All Star as a broadband service provider.

Enter into new market areas (Midway) and offer services that can provide economic leverage for the provision of those same services in All Star's less densely populated serving area.

Seize service opportunities as they are created by the deployment of a broadband network infrastructure.

All Star's Situation Analysis

The purpose of the situation analysis is to establish All Star's current position today relative to the provision of services in three major lines of business that are expected to be important in the future. These lines of business include local exchange wireline telephone, cable television (a surrogate for broadband services), and wireless communications. The intent is to use these businesses as a point of reference from which to develop the framework for the lines of business that All Star sees strategic value in pursuing for the future. Each of these businesses were evaluated as to their potential for All Star to capitalize on its position inside their existing service territory as well as the out of territory areas (Midway) surrounded by All Star.

Local Exchange Telephone (wireline)

In Territory

Franchised service area includes all of one county area and portions of two others.

All Star serves none of the larger communities in this area. They completely surround the town of Midway, which is served by a large independent LEC.

Service is primarily residential (90%) and there are 2 medium size employers in the serving territory. There are 3,942 access lines in service. Historic access line growth is 4%.

All Star utilizes a 100% digital switching network (a host and two remotes) that is providing a wide variety of primarily residential telephone services. The host switch is located at All Star's headquarters on the outskirts of Midway.

SS-7 (Common Channel Signaling) is in place on an intraswitch basis.

All Star has an EAS arrangement between all of its served exchanges and the LEC in Midway.

Network fiber is in place between the host central offices and remotes. This fiber backbone ring is an 8 strand fiber that does run through part of the city of Midway. Loop fiber facilities have not been developed, but are planned using an ACD (area cable design) node plan. Capital budget dollars are included in the 1996 budget for the development of this plan. Capital recovery on cable plant is very good with approximately a 50% reserve at year end 1994.

Basic local service rate is \$11.50 for one party residential service.

Custom calling feature penetration is 42% (# of features in service / eligible lines). TouchTone is a feature on 78% of the subscribers lines. The average CCF produces \$2.25 in monthly revenue and Touch Tone contributes \$1.25 monthly. CLASS features, anchored by Caller ID, are just being introduced.

All Star's net income is approximately \$800,000 per year. The most significant revenue stream is access revenues, which provides approximately 64% of the total revenues.

Out of Territory

Midway has approximately 20,000 access lines. Residential service is approximately 81% of the total.

The large independent LEC serving Midway has made little investment to improve or expand services available. Fiber investment is assumed to be low. Plans to provide SS-7 based services in conjunction with All Star are tentatively no sooner than 1997.

Population densities and demographics are better than in All Star's serving area.

Midway's monthly local service rates are higher than in All Star served areas. Calling scope is comparable. There is an EAS agreement between All Star and the independent LEC that serves Midway.

The LEC serving Midway does not have a good service reputation and commission relations are strained.

All Star has a high name recognition in Midway and there is demand present for All Star to provide local service in competition with the existing LEC.

Analysis:

All Star's telephone revenue growth is constrained by the demographics and characteristics of its existing serving territory. Access line growth cannot be expected to grow beyond historic levels given existing conditions.

Access and toll revenues are not expected to provide revenue growth in the future. Adjustments to the rates and competitive pressures will more than offset growth in customers and minutes of use stimulation.

Penetration levels for enhanced services is good and could only be expected to be improved by approximately 10%, yielding an additional \$15,000 in annual revenue, with additional promotion. New services (CLASS) revenue cannot be fully developed until service access (A-link connectivity) is established with the Midway serving area.

The development of fiber based services (CATV and Broadband) will help in the creation of new revenue streams and the improvement of demographics in the long term. The existing fiber network is not sufficient to serve as a backbone for this endeavor. The cost to platform these services on the network (fiber deployment and the addition of needed electronics) will be almost entirely incremental. Positive cash flows would be long term (+ 10 years).

Wireline competition in the Midway area will require a significant network investment for All Star. Retaliation from the large independent LEC serving the Midway market is unlikely.

Purchase of the LEC property currently serving Midway would still necessitate a significant network rebuild due to the lack of near term plant investments. In light of this and expected competition from wireless providers and possibly CATV providers, purchase of the Midway franchise has a low priority on the list of alternatives.

CATV

In Territory

There are All Star subscribers (38% of total access lines) surrounding the town of Midway that have CATV available from Midway Cable. Approximately 80% of the homes passed are subscribers. Market research conducted by management indicates that there is a high level of pent up demand by members for CATV service. Approximately 12% of the total access lines own or lease a TV satellite dish.

This wireline system has not been expanded due to the low density of homes in All Star's serving area and the cost to construct the facilities that would be required. In addition, there is a concern for competition from satellite. The local electric cooperative is actively marketing direct broadcast satellite systems.

The existing system is an analog configuration that would require complete overhaul to provide interactive or broadband signals. Existing subscribers do have addressable converters. No pay per view programming is being provided. This is an old system (approximately 15 years) and there is little net book value remaining.

Monthly rates are approximately \$28 for 38 channels of programming. The average subscriber bill is approximately \$32 per month (includes premium channel subscription).

Local exchange competition from the existing CATV provider is possible, but is not probable.

Out of Territory (Midway)

Home passage estimated at 80% and penetration at 80%.

The existing network would require extensive rebuild to provide interactive or two way communications.

Basic service cost is \$28.00 per month.

It is assumed that the City of Midway would accept multiple CATV franchises.

Cost to purchase POP is estimated at \$1,500 per recent transactions. This number may be high due to condition of the plant.

All Star does have a fiber route through and around Midway. There is not enough capacity to carry the CATV signal in the quantity required, but the right of ways are available.

All Star's strong name recognition and service reputation would provide a competitive advantage.

Analysis

It would not be prudent to build the fiber and coax necessary to provide CATV to that portion of All Star's serving area not currently served, on the basis of CATV service alone. If it is done in conjunction with a long term goal of making broadband service available the investment necessary is viable.

CATV should be viewed as a near term cash flow opportunity to help justify the building of the fiber network necessary to provide broadband services in the future. The provision of CATV services provides a needed market "overhang" for the later introduction of broadband services.

There is some threat from delay in entering the CATV business due to the influx of satellite.

All Star has tested the opportunity to utilize wireless CATV as a means to reach all members and enter the CATV market quickly. Due to the presence of heavy foliage and the overall strategy of providing broadband services this means offering CATV service will be treated as transitional and the choice of last resort.

The provision of CATV service in the Midway service area would provide a base from which to become a broadband service provider in a superior market. The improved demographics, but more importantly the improved service densities, would make CATV more financially rewarding. All Star could achieve a 35% market share or approximately 7,000 subscribers in competing with Midway Cable through the year 2005.

As a cooperative the investment to provide cable TV services outside of All Star's serving territory may be unacceptable to its membership. This is particularly true given the obvious demand for CATV service by All Star's customers. It may be possible to leverage the provision of CATV services in the population centers as the key to improving the economics for the provision of the service in the more rural, less densely populated areas. It is assumed that consistent with the overall objective of having broadband facilities available to 50% of the membership by 2005, that this will be the target for homes passed for CATV. Take rate is estimated to be 60%, or 30% of total access lines.

The combination of telephone and CATV services by a single provider would be attractive to All Star's members and would have strategic value.

Wireless Telephone Service

All Star is involved in a cellular partnership to provide wireless services over multiple cellular license areas. The RSA that covers their local exchange telephone service area and the town of Midway is operated directly under All Star's control. They are an 8% partner with another independent local exchange telephone company (also an 8% partner) and the operating partner, the cellular subsidiary of the neighboring RBOC. The other cellular operator in the area is AT&T Wireless (formerly Cellular One).

All Star will approach the low mobility (PCS) market by utilizing existing cellular spectrum or will attempt to partition their serving area from one of the BTA PCS licensees.

Wireless serving capacity is not an issue for cellular partnership. The consideration for upgrading facilities to digital will be entirely based upon the creation of new revenue streams; cellular data, enhanced fax services, and enhanced cordless offerings.

All Star Business As Usual Base Line Assumptions: What Will Take Place In 10 Years

The Business As Usual Forecast is an attempt to define the major events during the planning period that will impact the financials of the core business. Once this is completed, financial projects of new business projects will be added to the BAU forecast to provide an overall financial picture of the corporation during the planning period.

The following assumptions have guided the development of the BAU forecast for All Star Telephone:

All Star will face some level of competition for local telephone service and will provide only 80% of the access lines in their serving area in 2005.

Wireless competition (PCS & cellular) will become substitutional for wireline.

Work at home market is a significant segment and continues to grow rapidly. This will increase historic access line growth to 6%.

All Star will see their traditional earnings base erode from competition (direct and indirect) as well as changes in regulatory and business arrangements.

Access revenues on a per access line basis will decline by 30%.

Access rates (intrastate and interstate) will be brought to parity.

Billing and collection revenue on a per access line basis will decline by 12%.

Local service rates will be increased (\$11.50 per month to \$20.25) to compensate for loss of toll subsidy. 50% of the loss will be recovered.

Touch Tone line charges will become part of the basic local service rate, having a negative impact of 50% of the charge on local revenues.

Competition for intrastate toll revenues will be fierce. Area calling plans will be prevalent. Impact on ALL STAR's revenues will be negative. Annual growth will decline by half from 4% to 2%.

Customer and competitive demands will require All Star to enter the communications, information, and entertainment industries.

Broadband service demand exists and is being influenced by services available in nearby large markets. Services demanded will be video on demand, home shopping and interactive games.

Distance learning and telemedicine applications will be available.

The provision of these services will require the construction and expansion of a fiber optic based network.

All Star will require multiple revenue streams be developed on the platform of a broadband fiber optic infrastructure to economically justify its deployment.

Reselling of video, information, security, and access services will be important to All Star as both a wholesaler and retail provider. All Star will be leasing loop access and infrastructure support to competitors and information service providers.

Terminal equipment will evolve and converge to create a market for leasing. The sale of terminal equipment will not be positive due to the lack of economies of scale and channels of distribution.

The call management features resulting from Advanced Intelligent Network (AIN) are in great demand due to wireless and enhanced cordless service. Voice mail is also highly valued as a call management feature for wireless applications.

New home construction will be strong.

Customer demographics will improve based upon quality of life issues (ie. rural setting, less crime, simpler life) and the availability of technology that makes telecommuting more prevalent.

All new construction will be fiber or fiber/coax based. Copper will be deployed only for repair/replacement.

Construction spending levels will increase dramatically and exceed internal cash generation. Equity ratios will be lowered furthering the negative shift in the risk versus return relationship (35% to 23%).

The number of employees per 1000 access lines served will remain constant or decline due to the need to stay efficient in the face of competition. The technical competence of the existing work group will need to be significantly upgraded.

Service availability and access will be as important to All Star's customers as price and service quality.

Price will not be the prime determinant for customers choosing exchange telephone service.

Service connection intervals will be reduced to almost on demand.

Customers will be demanding increasing levels of customization in service offerings.

Customer service will be the primary basis for differentiation among competing local service providers.

Many of the smaller commercial telephone companies will disappear making All Star more unique and less powerful in the industry.

Analysis

The positives in the expected trends are an improvement of demographics and in access line growth. Unfortunately these positives will be offset by a decline in market share due to competition from other wireline and wireless carriers and a decline in a number of traditional revenue streams due to regulatory changes and a changing relationship between the IXCs and their customers.

New Line Of Business (LOB) Analysis

The following parameters have guided the development of the analysis of the new lines of business:

Includes only incremental revenue, expense and capital specific to the individual new line

of business being evaluated.

All Star's results alone, overlaid with out of territory service areas.

Assumptions based upon available research tempered for All Star's and Midway's demographics.

Business value based on its ability to provide cash flow or growth or both. This analysis looks at only the results projected during the planning period.

LOBs fall into three groups as they relate to the strategic direction:

Platform- provision of the service is directly related to the deployment of a broadband delivery network. Infrastructure based.

Support- not dependent on the broadband infrastructure, but provides strategic market positioning and support to the introduction of broadband based services.

Consolidation- revenue opportunities that leverage off of existing business lines and have the potential to provide additional venture capital.

General infrastructure costs needed to platform all video and broadband services are added in total as opposed to allocated back to the individual lines of business.

Infrastructure Cost Assumptions

Basic Premise:

Deploy an infrastructure that will allow the delivery of broadband services to 50% of All Star's market area by the end of the year 2005.

Estimate of \$1.5 million to construct fiber backbone necessary to get within 12KF of All Star subscribers.

Develop to "the neighborhood Hybrid Fiber Coax (HFC) access node", each node can serve up to 400 locations, and distribution fiber plant.

Cost per location served (includes OC-48 hub, access node and fiber) = \$ 1,600 per subscriber served in areas with low subscriber density.

Coax leg to complete the HFC configuration will cost \$800 per subscriber; included is the entry coax, premise wiring and interface device.

COST PER Subscriber = \$2,800

Incremental cost to achieve same objective in Midway

Construction of fiber extension to provide sufficient capacity to support CATV, Videotex, NVOD, VOD, Telemetry services is \$300 per subscriber.

Neighborhood fiber node at \$1,200 per subscriber (less than All Star's due to improved customer density)

Coax into the home will cost \$700 per subscriber (less due to improved density and assumption that 50% will have premise wire in place).

Midway Cost Per Subscriber = \$ 2,200

All Star New Lines Of Business And Deployment Schedule

The following schedule lays out the new businesses that All Star plans to deploy and the year they plan to deploy these new services:

1996 Deployment

Regulated Access Transport- Develop a facility from All Star's end office to transport all interLATA access minutes of use to the IXC point of connection. Also provide transport for access minutes that originate or terminate in Midway.

Multiple Access Line Growth- Assumed growth in second access lines factored into forecasted access line totals for the All Star and out of territory serving areas. Growth expected as a result of demand for modem and fax lines for business and home office workers.

Long Distance Resale

Voice Mail (integrated central office based- SMDI)

Voice Conferencing Bridge- On demand dial conference bridge service for business teleconferencing.

1997 Deployment

Computer Hardware & Software Sales

Computer Training

Computer Maintenance- Provide computer sales and service to educate the members of All Star and to create a market for on-line services like internet and later computer based video and broadband services. Target is to develop a penetration of home computers of 50%.

Local Internet Access- Provision of a local network access point and gateway.

ISDN- Basic rate interface primarily aimed at the on-line computer users for digital high speed connection.

Telemetry Services- Alarm system sales and monitoring for residential and business customers.

1998 Deployment

CATV (Out of Territory- Midway)- Develop the infrastructure and cable facilities to provide CATV services in Midway. The greater density will allow this endeavor to produce a positive margin for CATV with only a 30% market share assumption. It will also create an opportunity to provide additional services to the customers in Midway. The strategy is to leverage off of this base to make the provision of CATV in territory economic and to establish a facilities based market presence in Midway.

Enhanced Cordless- Utilizes All Star's existing cellular spectrum allocation to provide a low mobility, cordless/wireless local telephone service to compliment the wireline base in territory and to establish a stronger market presence in Midway. The features of this offering would be flat rate service in the home cell area and automatic registration outside home cell onto the cellular network on a minute of use basis. It is similar to the PACs design being developed by BellCore.

1999 Deployment

CATV (In- Territory)- Leverage the improved economies of scale to allow the provision of CATV services within All Star's serving area. Serves as a near term opportunity to help justify the deployment of the needed fiber network and establishes a market base and position for the provision of broadband services.

Competitive Local Service Provider (Midway)- Offer local telephone service to All Star's CATV customers in Midway. It is assumed that the combination of one service provider for telephone, CATV, and long distance (resale) will allow All Star to capture 45% of the telephone service for its share of the CATV market in Midway. This would equate to 13.5% (45% of 30%).

Videotex- Video based on-demand information of both a local and regional/national content. CATV subscriber base would be the target market. It is assumed that by the end of the planning period that 70% of the homes subscribing to CATV will utilize videotex to some degree.

Video on Demand- On demand movies and time shifted television services would be introduced in the form of "Near Video on Demand" until true on demand video technology is available (2000). Penetration is expected to grow from 18% to 70% of the CATV customers.

2000 Deployment

Video Network Gateways- Gateway services to networks providing interactive home shopping, multiple player games , etc. Revenues would be in the form of commissions received from these networks and for services rendered including; billing and collection, advertising, and access device rentals.

Broadband Access Resale- The provision of the network facilities to specialized broadband services and niche programming applications. Examples would include entertainment, health telemetry, education (including distance learning). Basis for revenues would be network minutes of use.

All Star's Strategic Direction

Purpose:

To provide a strategic direction for use as a framework to evaluate the various new lines of business that All Star's management is considering for the cooperative's future.

We have developed an example business model from the organizations mission statement and the informal organizational objectives that were discussed during the new business line identification session. This structure serves as the support and the timeline for the new streams of revenue that have been indicated as having strategic value for All Star.

Strategy:

To become the primary information and entertainment source in the 3 county area currently being served.

Objective:

Deploy an infrastructure that will allow the delivery of broadband services to 50% of All Star's

customers by the end of the year 2005.

Action plans:

Construct the fiber ring backbone architecture to provide the carrying capacity to support the provision of broadband services. (1996 - 1998)

Establish regulated access transport facilities directly to the IXC POPs. (1996)

Develop fiber feeder and distribution plant from the backbone network to reach within 12KF of All Star subscribers. (1996 -1998)

Undertake both field and economic testing of HFC (hybrid fiber/coax) delivery system in a highest density areas. (1997 -1999)

Examine the economics of a fiber to the curb solution such as SDV (switched digital video) as future changes in the All Star's switching fabric (switch provider and ATM) is being evaluated. (1999 - 2002)

Objective:

Maximize existing service cash flows to create new venture capital. Grow enhanced network service penetrations through improved promotion and consultative selling emphasis.

Action plans:

Develop enhanced service penetrations to the fullest. Increase penetration to 54% for traditional CCFs and 82% for Touch Tone.

Take CLASS and other enhanced service penetrations to 40% of CCF development

Leverage the existing infrastructure and operations capabilities of All Star to expand service scopes outside of the serving areas, ie. long distance resale.

Objective:

Develop new lines of business immediately that will provide both cash flow and strategic positioning for All Star as a broadband service provider.

Action plans:

Establish the Regulated Access Transport facility to the IXC POPs.

Develop long distance resale business across the entire target market area (All Star service area and Midway)

Offer local Internet access and PC sales, training, and maintenance across the entire target market area.

Objective:

Enter into new market areas (Midway) and offer services that can provide economic leverage for the provision of those same services in All Star's less densely populated serving area.

Action plans:

Develop a market service plan that targets those areas in Midway with the greatest potential and highest densities to offer CATV and Broadband services.

Construct facilities to those areas with the greatest potential with sufficient capacity (bandwidth etc.) to allow for the delivery of multiple services over a single facility.

Offer state of the art CATV services (digital, interactive, Near Video on Demand) initially to establish market presence.

Expand service offering to include local telephone and later Broadband services to the base of CATV subscribers.

Use position as a full service provider (CATV, Telephone, Internet Access, Long Distance Resale, Broadband Services) as a competitive advantage over incumbent service providers to drive penetration levels and homes served deeper into the total base.

Determine the service areas most attractive to the provision of enhanced and interactive video services within the geographic confines of All Star's traditional local exchange serving areas.

Utilize the economies of scale developed in Midway to extend CATV and Broadband services into the less densely populated target service area.

Objective:

Seize service opportunities as they are created by the deployment of a broadband network infrastructure.

Action plans:

Keep abreast of technology developments and industry changes to research new services as they

become available

Perform market studies to determine the demand level for future services and segmentation of the target market

Utilize market data from larger markets to determine appropriate target markets and demographics for new services

Forecast local demand and make decisions on new services roll out based upon both financial and strategic factors

Roll out new services in a logical manner; consistent with demand in the target market and service migration patterns.

All Star's Strategic Plan - Summary

Following is a summary of the business strategies developed thus far:

Maximize service profitability opportunities for existing products and services to provide a source of funding for new endeavors ie. enhanced network feature penetration, regulated access transport.

Establish non-traditional, non-network based lines of business which change customer's perceptions of All Star, educate the customer base, and create demand for network based services ie computer sales/training/ maintenance, long distance resale. Overhang the market.

Develop a broadband network deployment plan that identifies the major concentrations of population in the desired service area including Midway.

Begin building out the HFC network infrastructure necessary to initially provide CATV and later broadband services to the principal concentrations of customers across the three county service territory.

Develop a market presence in the Midway area as first a CATV provider and leverage that position into local exchange telephone and broadband service offerings. (See Midway Service Strategy below.)

Expand cellular offerings in those areas served by All Star's cellular service in the three county target market area to include enhanced cordless service and in-building wireless. (See Wireless Strategy below.)

Examine CAP opportunities that are available to All Star as they build out fiber to the Midway

area and the establishment of a regulated access transport facility. These would include large end user to IXC access and carriers carrier opportunities.

Utilize position as a full service network provider of CATV, telephone (wireline and wireless), long distance resale, and internet online access as a competitive advantage to compete with the existing CATV provider and the incumbent LEC in Midway.

Expand CATV operations into the unserved All Star areas using the economies of scale developed in the Midway service area.

Migrate service offerings into interactive video and information services ie Video on Demand. Consolidate base and further develop demand.

Further leverage network infrastructure investment by reselling access to various network application providers and niche market programmers. This will make contribution towards the cost of unused network capacity and promotes the perception of All Star as a full service provider.

Proposed Midway Serving Area Strategy

Assume role of local service reseller in Midway to establish greater market recognition and to increase knowledge of local market. Combine with the offer of long distance access as a reseller to provide a complete package.

Reinforce fiber that is routed through Midway service areas. This is also necessary to support in territory strategy.

Compete with incumbent LEC in Midway for the transport of interLATA access minutes of use that originate or terminate in the Midway service area.

Develop plant extensions into dense population areas for the provision of CATV services.

Look opportunity to assume the role of a CAP from the fiber backbone to large end users and possibly IXCs. This approach would also compliment the PCS strategy of providing in-building wireless and enhanced cordless services.

Capitalize on market position and acquired market intelligence to selectively offer facilities based local service in combination with CATV service into those areas where the potential for broadband services is the highest.

Utilize the improved economies of scale for CATV (shared headend, servers, node equipment) to increase scope of CATV service offering into All Star's traditional service area.

Become a one stop shop; CATV, broadband services, telephone (both wireline and wireless), toll carrier (FLD).

Proposed Wireless Strategy

All Star has elected not to become involved in the PCS spectrum auction. They will use existing cellular spectrum to meet these customer demands.

A PCS competitor will require at least 24 months to make all arrangements and build out a system to begin offering service. In All Star's service area this will be closer to 36 months.

All Star recognizes that the wireless market place exists on two levels; those customers who require wide-area, high mobility service (traditional cellular), and those customers who desire a local area, low mobility, automatic registration service (enhanced cordless). All Star will aim to serve both levels of this bifurcated market.

All Star has enough available cellular spectrum to meet initial demand for an enhanced cordless offering. Capacity is not an issue. Capacity can be controlled by selective upgrade to digital cellular facilities.

All Star can enter this market and gather market share several months in advance of the PCS providers.

The initial offering would offer flat rate service within a local calling area (neighborhood). The user would have the option to register on public transmitters located in high traffic areas on a per minute of use basis. There would also be a level of service at a premium per minute of use that would allow an enhanced cordless user to have full cellular capabilities on off peak and in emergency situations.

The additional provision of long distance resale services will allow All Star to become a full service provider in some out of territory markets in advance of building broadband fiber facilities.

In building wireless (fixed systems) will also be offered to business customers.

Voice mail will be the primary call management tool, although a service offering that includes paging as a surrogate for the advanced intelligent network locator and registration system is also conceivable.

There will be some cannibalization of existing full service customers; however we believe that the market for enhanced cordless service will be much broader and will far exceed the demand that is expected for cellular by itself.

All Star's Planning Conclusions

All Star's existing business growth is constrained without new lines of business.

The provision of a complete product line (one stop shop) of entertainment, communications, and information services will be a competitive advantage and vital to the retention of customers .

All Star must be in the CATV business for several reasons; customer perception/acceptance/demand, market positioning, business expansion, and precursor to Broadband services etc.

The provision of communications and entertainment services by All Star in the Midway market area is critical to provide the needed economies of scale for the offering of those same services in the existing service area.

Evaluation of this plan requires a long term perspective and the acceptance that the business is undergoing a metamorphosis and will be a different animal when it is completed.

All Star has more to gain than to lose from competition. There is a greater opportunity than there is threat if All Star acts proactively.

Future decision making must be market driven (competitively customer focused).

Capital spending must reflect managements strategies. Represents the most tangible evidence that the strategic plan is being implemented.

New technical and marketing skills will need to be acquired. Significant talent search and impact on All Star's operations; salary levels, benefits, impact on existing organization structure and pecking orders.

Operating systems ie. billing, will need to be revamped. This will be a major issue and cost.

The coordination of many different endeavors (cellular, broadband deployment, service and serving area expansion) will present synergies and economies that must be managed and blended.

The organizational changes required will need to be revolutionary as opposed to evolutionary. The number of employees per 1,000 access lines served will decline at the same time new talent is being acquired. All Star must become more efficient and be run by knowledgeable/capable people.

Internal Company Analysis

Internal analysis is a step in the strategic planning process where the company takes an internal look at the assets and liabilities related to moving into the future. Obviously weaknesses in the organization that will impede the progress of the company need to be resolved, while strengths that the company has that will help to propel the company into the future need to be emphasized.

We have attempted to define strengths and weaknesses that would typically be found in a cooperative the size of All Star.

Strengths

Ownership Relationship with Customer - Since the members of All Star Telephone Cooperative own the company, they have a vested interest in the success of the business. This is one of the greatest assets that a cooperative has. The cooperative has made period capital credit payments to the members that has further solidified this relationship.

Reputation With Customer - The cooperative has a "service" ethic that has accorded it a fine reputation for service in the area that it serves. In fact customers in surrounding areas, served by a larger independent company would rather have service from the cooperative than their current local service provider. This pent up demand for improvement of service will help the company meet its strategic objectives.

Caring Employees - The employees of the cooperative are caring career minded employees who have been with the company for many years and truly care about the customer. Within the boundaries of training and culture of the company they are conscientious, and hard working.

Billing Capability - The company has internal billing capability that can be brought into the CATV and broadband business.

Service Delivery - The company has installation and maintenance capability to provide network based service not only in their territory but outside their territory as well.

Network - The company has a fiber optic network that connects all their central offices together. This is the foundation on which broadband network will be built.

Switching Knowledge - The company has knowledge and experience with local switching equipment. This will help the company expand its services outside its territory.

Annual Meetings - Although required by by-laws to have annual meetings, the meetings serve a double purpose of boasting public relations in the community.

Newsletters - The company also has a newsletter that has been helpful in buoying customer

relations, and promoting the company. The newsletter is professionally prepared and sends the right "high-tech" one stop shopping message to the members.

Weaknesses

Strengthening Core Business

Viewing Service From Customer's Perspective - While the cooperative collects certain data to determine the level of service that it provides to the customer, it measures service from standard measuring devices designed in the 50s and 60s by REA. This statistical data, measures the level of service that the company is providing from a very parochial point of view. The cooperative does not measure service from the customers point of view, nor does it make an effort to view its services through the eyes of the customer. No effort is made to poll customers, nor gain their input relating to acceptable service standards and measurements.

Culture - There is an unspoken "way to do things" that provides the framework for all thinking and actions of a cooperative. At All Star Telephone Cooperative the board of directors tends to over control the company, and tends to involve itself in many day to day operational issues. This has tended to politicize the operation of the company, and curtailed management's ability to aggressively grow the company. Also since the board involves itself in employee disciplinary actions, and frequently overrules management action, management has a difficult time getting maximum production from employees.

Performance Based Management - Management is reluctant to implement Performance Based Management, which would be a more demanding style of management out of concern that the Board would not support management actions. As a result work inspections, performance measurements, and production controls have not been implemented.

Results Measurement Systems - These are performance measurements that determine productivity and indicate service levels both on an individual employee basis and on a company wide basis. These systems would provide management and the board with data that would indicate the performance levels of employees, departments and the company as a whole. Since management is reluctant to implement performance management these measurement systems have little value and are not being used.

Financial Based Decision Making - Most of the major decisions relating to launching or discontinuing new products and services, are based on intuitive decision making or influenced by what other respected companies in the industry are doing. The company does not have a standard economic evaluation criterion that they use to critique new business opportunities. Nor does the cooperative have a systematic economic forecast that it uses to evaluate predicted changes in the business.

Planning Capability - The cooperative does perform long range planning related to outside plant,

central office and toll access routes. However the company does little strategic, economic or long range planning in other areas of the company. The company does prepare an annual budget, but only the general manager and the chief accountant are involved in the preparation. Long Range budgets beyond the current year are only done in conjunction with an REA/RUS loan application, and are not used as a management tool beyond loan purposes.

Environmental Monitoring - Competitive Intelligence Gathering - The Cooperative receives a number of publications which are scanned by management and distributed. This publications are limited to trade publications. The information gleaned from these publications is not filed or categorized nor is it included in any planning process. The company also does not conduct market research or competitive research to learn what they can about potential competitors. Global environmental information related to demographic trends, and or technology trends is also not accumulated or investigated.

Measuring Employee Productivity - The cooperative has minimal information on the level of productivity and the quality of work performed by its employees. It makes no systematic effort to manage or control employees based on productivity. In addition service standards which would define the quality and productivity expectations of the company are non-existent.

Performance Appraisals - The Cooperative does not have a systematic employee appraisal system. The Board of directors approves pay raises once a year. Hourly paid employees are in scaled wage plans with a maximum hourly rate established for all hourly people. Pay raises are automatically given to hourly people unless their have been performance problems, in which case pay raises may be held up or delayed.

Management and supervisory raises are discretionary and based on subjective issues like value to the company, length of service and comparisons to other similar positions in the community.

Performance Based Compensation - Pay raises and compensation are not based on performance. Since the company has no performance measurement system, there is little to based an objective appraisal of employee performance.

Market Intelligence - The company does not do any market research. New products and services are launched without the benefit of input from customers. No effort is made to poll members relating to service levels or standards. Managers assume they understand their customers because they live and work with members in the community.

Lack Of Customer Friendly Access To Services - Monthly local service bills are difficult to understand. Local business office hours are from 9 to 5 and are inconvenient to the majority of customers. New applicants are required to make application at the business office and go through a mandatory "application for membership" that must be approved by the board of directors. Repair service is answered live only 8 hours a day and is switched to a recording after 5 pm. Cooperative facilities and services have never been evaluated critically to determine if they are

convenient and friendly to the member.

Operating Procedures - The company does not have written procedures that define operations of the company. There are no written practices that define how work is to be performed. While some REA written guidelines guide specifications for some outside plant functions, they are limited and not followed by managers, supervisors and employees.

Emphasis on Proactive Sales - The cooperative's sales function is limited to responding to requests from the customers for quotations for equipment, or to order services that the customer has requested. There is no systematic method for promoting new products, or "selling up" or attempting to convince the customer to take more services than they have originally requested.

There is also no systematic program to call on the companies Top 50-100 customers to survey services that they have, make sure they are satisfied with services, or to try to determine if they have additional needs that would prompt and opportunity to sell new services or equipment.

Training

Position Requirements - The cooperative does not have specific written employment requirements for each of the hourly and management position in the company. This would define minimum experience, education, and technical training required before a person could be hired into a position.

Training Requirements - The cooperative has not defined training requirements for each position in the company from the board to hourly employees. These training requirements should specify continuing training requirements, and a systematic program should exist to insure that each employee receives specified training.

Management and Supervisory Training - Although some supervisors have been sent to some management and supervision training, the general manager and the board have not attended this training. Techniques that supervisors learn in this training are not being used by board and management. Philosophies and styles of management are different between board and management and conflicts over management values inhibit growth of the management. All supervisors and managers, including the board should attend the same supervision and management training program, so that they are all using the same philosophy and program to manage with.

Emphasis On Technical Training - Even though broadband and television services are the new frontier for the telephone company, technical training necessary to upgrade technical capability is not well planned or effective.

Salary Structures To Attract New Talent - The general managers salary is \$80,000 a year. This salary has been established by comparing it to other senior level management positions in the

community, and confirmed by surveys done by NTCA. When compared to salaries on other CEOs and general managers in competitive business that generate gross revenues similar to the cooperative, it is not uncommon to find salaries in the \$125,000 to \$200,000 range.

Broadband and competition will require bringing new management and supervisory talent into the company that is familiar with business under these conditions. Middle management and engineering salaries in urban areas, and larger telecom ventures where talent will be sought, are higher than the current general managers salary. Compounding this problem will be attracting talent to the rural area the company serves.

The cooperatives salary structure needs to be revamped to reflect business in a new environment.

Planning

Annual Operating Plan - The cooperative does not have an annual operating plan that defines the general and specific operational and financial goals of the company during the coming year. This document should be a vehicle whereby the board and management agree on projects and expenditures related to company operations in advance.

Strategic Planning - This is the companies first attempt at Strategic Planning.

Market and Product Planning - Marketing is misunderstood by the cooperative as a "selling" function. There is no systematic program to research and develop new products or services or to manage the life cycle of existing products.

Opportunities

Within 20 miles of a medium sized city (Midway) - The company is located within 20 miles of a city with 20,000 in population. This city is served by a large independent LEC. This city is not large enough to attract the attention of Competitive Access Providers (CAPS) that are moving into larger secondary and tertiary markets. This means that the telephone company will have a niche opportunity to provide competitive access, competitive local, and CATV services to customers in this market.

Unused switch capacity - The company has ample lines and numbers in reserve that it could offer local services (business and centrex) without having to make substantial investment in new switching equipment.

Threats

Cable Television Operator In Territory - The Telecommunications reform act of 1995 will allow CATV companies to raise their rates and will also let them into the telecommunications business. Many cable television companies large and small are currently investing in telephone switches

and equipment to position themselves for this business when legislation is passed. Although CATV companies will have substantial upgrades in facilities to make to engage in this business, the higher rates that CATV companies will be able to charge will give them a much larger revenue base upon which to recover their investment. The CATV operator will also be the telephone cooperative's major competitor for broadband services of the future.

Deregulation Of The Local Service Business - Deregulation of local exchange market place will dramatically alter the business of the telephone cooperative. The attraction of profits, real or imagined will bring many entrepreneurs into urban and rural markets in the hopes of carving out of piece of the business. But the main threats will be from interexchange carriers who will fight for control of the customer with "one-stop" shop services and being able to render to the customer a single bill for services. It is anticipated with proposed legislation that long distance carriers will be able to resell the services of the local carrier by mandate.

PCS/Cellular - All wireless services will continue to be a threat to local exchange companies, but will thwart the growth of lines for telephone companies instead of being a direct competitor for service. Wireless communications will blend cordless, enhanced cordless, cellular and PCS in a seamless service where the hand held portable phone will make the judgement over which facilities the call should be placed.

Wireless services will grow as an adjunct or an enhancement to fiber networks that will grow along side.

Significant Gaps To Achievement of the Strategic Plan

All of the items identified as weaknesses of the organization will become "gaps" that need to be corrected for the company to be successful in the future. Please see this section for a listing of these "weakness areas."

In addition to or to expand the items listed in the weaknesses section, the following are additional gaps that need to be corrected to achieve the business strategy laid out in the Strategic Business Modeling section.

Changing and Upgrading the Culture Of The Company - Of all the changes that will have to be made at All Star Telephone Cooperative the culture or personality of the corporation will be the most difficult to change. The collective views and values of the key managers and the board and the way the board and management share power, assuming that it needs to improve, will be difficult to change.

For many cooperative companies the "politics" of the organization and the incentives that motivate various players in the organization will create the most challenging aspects of change. Board Members are motivated by re-election and providing to the consumer what they want, which may not be consistent with the needs of the business. The return of capital credits may

be a politically expedient thing to do. But with the company needing to build a broadband network for the future all available capital will be needed to build this new infrastructure. The goal of returning capital credits and the goal of rationing capital may be at odds with one another.

Management of cooperatives are motivated to retain employment. A decision to merge with another cooperative may be good to improve efficiency and economies of scale of the business. Management may reject such a move because in doing so their jobs may be at risk.

Employees are motivated by job security, increases in benefits and work rules favorable to them. Competition, and rates that are more reflective of cost will force cooperatives to become more efficient, reduce costs, and perhaps reduce wages and benefits of employees. Employees are usually members of the cooperative holding one share just like any other member. Employees can vote at annual meetings and may become involved in the politics of these issues by supporting sympathetic candidates for the board, or run for a board seat(s) of their own.

The members themselves, who do not have the knowledge of the technology of the future, and who are only concerned about the cost of existing service will resist rate increases necessary to make cooperative's more competitive in areas where they are the most vulnerable to competition, Business Services, and Access Services, both of which have artificially high rates to support universal service rates for residential customers. While the members may fight to keep rates low, the health of the company may require rate hikes.

All of these conflicting incentives will create political problems for many cooperative companies. This "political culture" of many cooperative companies will present more difficulties to managers than any other problem they face. They may know what needs to be changed but be unable to change for fear of the political repercussions.

Sufficient Capital To Achieve Strategic Goals - Whether it be a telephone company or a CATV company, upgrading facilities to provide broadband services will be expensive. It will cost as much or more to upgrade to broadband as it did to upgrade to all one-party in the late 1970's and early 1980's. Considering most cooperative telephone companies have to maintain reasonable debt equity ratios, and that there are other opportunities that these companies will want to invest money in rationing capital is a significant issue that must be faced. A strategy that requires more capital than a cooperative can raise is unachievable.

Finding Broadband Engineering Capability - Creating the technology for broadband services will create a tremendous demand for Engineering talent to guide the development of these systems. As significant as these services will be to the future of the cooperative, these skills need to be resident on the telephone cooperative's staff. The challenge will be in finding and attracting talent to rural areas. Part of the difficulty in attracting new talent will be salaries in rural areas that have not kept pace with salaries elsewhere in the telecommunications industry. In many cases the salaries that are demanded for this talent will cost more than many general managers

are currently making.

Constructing Broadband Network Capability - Akin to finding engineering talent to designing these new systems is the task of actually building them. The goal of reconstructing the entire infrastructure in itself will be an overwhelming task. Planning and timing products and services for delivery over these system will be a significant challenge to insure that revenues will flow to pay for these upgrades.

Creating CATV Capability - CATV is not a business that many in the cooperative telephone industry understand. Establishing a CATV business and presence will require learning the business or acquiring managerial talent from an existing CATV operation, and getting all the necessary approvals to be in the business.

Foremost among these approvals is getting regulatory approval from the FCC to offer CATV services in the telephone company's current serving area. Although it is anticipated that Congress will permit telephone companies to get into CATV business, it is unclear whether there will still be FCC 214 approval required. A pending lawsuit by NTCA challenging the constitutionality of a cross ownership ban, and the 214 application requirement as an alternate method for maintaining the ban are currently being tested in the courts. It is believed that in the short term, the prohibitions and regulatory restrictions that prevent a telephone company from owning providing CATV services inside their territory will be lifted.

There is still however the local issue of obtaining a franchise for services from local authorities to be able to provide services. It is anticipated that legislation passed by Congress will prevent municipalities and counties from issuing exclusive franchises, there will still be, no doubt, a continuing franchising process to go through permitting governmental bodies the right to tax these services.

Significant Improvement of Service Delivery and Results - "Service" will become a critical factor in the competitive effort to retain customers. For too long the industry has viewed service from the prospective of providing it rather than receiving it. The market and competition will redefine what good service is with the customer being the ultimate judge, casting their vote with their business. Number portability and competition will force telephone cooperative's to take a long hard long at how they provide service and to listen to their customers relating to what good service is.

Significantly Improve The Skill Level Of Board and Management - All Star Telephone Cooperative's board is not prepared to manage a cooperative in a competitive environment. Collectively they lack the management skill and knowledge to deal with the various facets of the business that are needed to succeed. As the business becomes more complex they will fall farther and farther behind in terms of skill level needed to manage the business.

Further management must become more qualified to manage a business that is more focused on

productivity, and indices based management. None of the managers at All Star Telephone Cooperative have been through a management training program. What training they have had has not been taken as a group and the philosophy espoused in this training was not supported by upper management. The management team will undertake management and supervisory training together as a group, building a common understanding of the principles they will use to govern and manage the company.

Summary Of All Star's Major Internal Gaps

Inability to View Service From Customer's Perspective

Corporate Culture

Lack of Performance Based Management

No Results Measurement Systems

Lack of Emphasis on Financially Based Decision Making

Level of Planning Capability

Absence Competitive Intelligence and Understanding

Employee Performance Appraisals and Productivity Measurements

No Connection Between Performance and Compensation

Lack of Understanding of What the Customer Wants and Expects

Lack Of Customer Friendly Access To Services

No Operating Procedures

Inability to Perform Consultative Sales

Lack of Emphasis on Employee Development and Training

Management and Supervisory Training

Salary Structure To Attract New Talent

Implementation Plan

While the heart of the Strategic Plan is the Strategic Business Modeling, the soul of the Strategic Plan is the implementation plan. If the strategy does not find its way into a concrete action plan, than the planning effort has been a waste of time. All the gaps identified should find their way into an action plan that will establish the priority of the gaps to be corrected, define who will correct them, and when. Those items that will be correct or completed in the first twelve months of the plan. These items will be closely coordinated with the cooperative's annual operating plan. This annual operating plan defines specific objectives for each manager and department/section to be accomplished in the next budget year. All other gaps, and action items for subsequent years will be defined and assigned to the appropriate person responsible noting the year that the task should be completed by. Each year the action plan will be updated.

Contingency Planning/Annual Operating Plan

The strategic planning team will identify all significant issues or events that might have an impact on the strategic plan. Each of these events will be defined with an action plan put together that defines the action that the company will take if the issue or event begins to impact the plan. It will also identify how the strategic plan will be altered.

Annual Operating Budget

In All Star Telephone Cooperative the annual operating budget has typically been assembled by the Comptroller. The company will endeavor to involve all managers and supervisors in the budgeting process who will then be held accountable for managing their operation within that budget.

Summary Of Significant Planning Issues

Staying with it - Programs that management may implement come and go, tried and rejected. Strategic Planning is not a program. It is not a panacea, solving all of the company's ills. It is a process for establish a disciplined and organized direction for the company. It is a process for getting all of the company's resources working for the same thing, providing needed focus on the changes required. The benefit from the process is management subjecting themselves to the structure and the discipline of the process.

When the process becomes work, the tendency will be for companies to drop the process. To stay the course requires that management commit to the process and the upper management will insure the process is followed up.

Support from the Board to Hourly Employees - As with anything new various employees and key managers may balk at the process with a "not invented here" attitude. This can be avoided by giving key managers and hourly employees input into the strategic planning process. They need to feel that they own the process and have played a part in it. This will only happen when they are involved from the beginning.

Seeing It As An On-going Process - Strategic Planning is something that is started in January of each year and completed in December when the operating plan and budget are put together. The process starts all over again the next year.

Financial Narrative

The All Star Telephone Cooperative is a 4,000 access line cooperative telephone company considering its future. The company is concerned that changes taking place in the telephone and other related industries will impact their operations over the next ten years. In particular ALL Star wants to understand the changes in cash flows that will occur as the services they are providing evolve. This requires an identification of what business they will be in, the services being offered, the infrastructure changes necessary to platform the service, and the internal operations changes required for support. Additionally, ALL Star will need to evaluate its existing revenue streams to determine what level they can be relied upon to provide funding to finance the new endeavors and to what level outside financing will be required.

Schedule 1 (3 pages)

This schedule shows the development of the baseline financial data for the All Star Telephone Cooperative. It is based upon a composite of similar sized telephone cooperatives that report results annually to The United States Telephone Association for inclusion in the USTA Statistical Guide to the industry.

Schedule 2 (1 page)

This pie chart graphically demonstrates the distribution of All Star's various revenue streams at the current levels.

Schedule 3 (1 page)

The pie chart projects All Star's current revenues into the future (2005). The second schedule develops the relationship of revenues and expenses both on a per access line basis and by employee. These projections are made consistent with the baseline, business as usual assumptions developed in this report (see page 20). The most significant changes from the 1995 levels are as follows:

Total revenues have grown by less than 17% over the ten year period.

While revenues per access line have grown overall, the shift in the cost burden from access revenue to local can be seen as the access revenues per access line have decreased by 30%. Access revenue has declined as a percentage of total revenue from 64% to 52%. Monthly local exchange rates have been increased from \$11.50 to \$20.25 over this 10 year period.

Operating expenses and depreciation are projected to increase at 4% per year. This includes the growth in employee count from 20 to 30, keeping the number of employees per 1,000 access lines at approximately the same level.

Net Pre Tax Income is dramatically reduced from the 1995 level of \$813,000 to \$218,000. This is primarily due to the lack of growth in traditional revenue streams.

Internal generation of funds is comprised of the net income and the add back of the depreciation as a non-cash source of cash flow. The business as usual operations, with the assumption of a capital budget of approximately \$1 million per year could be funded without additional debt.

Schedule 4 (2 pages)

The pie chart projects All Star's revenue growth to the year 2005 and includes contribution from all of the new lines of business that were developed by the planning team. The revenues are dramatically increased by the inclusion of these new LOBs. In addition to the new revenue categories for CATV and broadband services, traditional revenues such as local service were increased due to All Star's entry into the enhanced cordless market, the expansion of service into Midway, etc. Access revenues were impacted by the development of the interLata transport facility, and additional access revenues generated by the local Internet node and the additional local service customers served in the Midway market.

Capital spending will increase from an average of \$1.1 million annually to an average of \$4.3 million to support the new lines of business. The incremental capital cost to support the new lines of business was \$13.2 million. The general infrastructure capital cost to construct the hybrid fiber coax network is projected to cost an additional \$18.3 million during the planning period.

The internal generation of funds from the business as usual operations will contribute \$5.7 million in free cash flow through 2005. The new lines of business will throw off cash in the amount of \$25.2 million to finance the forecasted capital requirements.

\$11.6 million will need to be financed (net of capital required minus internally generated). It was assumed that All Star would secure these funds with a 30 year loan at 7.7 % interest.

The additional borrowing will reduce All Star's equity ratio from 51% to 25%. 20% is the minimum for RUS requirements.

A calculation of a discounted payback (at 8% cost of capital) for the investment in new lines of business and the infrastructure costs (including interest expense) would provide an 18 year payback.

The dramatic increase in expenses is largely related to the above mentioned increased interest expenses, the resulting increase in depreciation due to expanded capital spending, and the growth in employee count directly related to the additional access lines being served and the staff necessary for the new non-traditional telephone operations.

The decrease from the business as usual count for (see schedule 3) the number of employees per 1,000 access lines is attributable to greater economies available across a wider service offering and improved plant facilities due to the necessary upgrades. This change is also consistent with All Star's need to become more efficient in the face of competition.

Schedule 5

This series of bar charts graphically depicts the relationship of All Star's business as usual results for operating revenues, operating expenses (including depreciation), pre tax net income, and level of capital expenditures.

Revenues- The growth by segment is demonstrated in schedules 2,3, and 4. This schedule demonstrates the dramatic growth of the new lines of business through the end of the planning period.

Operating expense- The significant increase in interest expense , depreciation , and salary expense due to increased staffing are indicated beginning in 1999.

Net Income (pre tax)- The steady decline in the business as usual operation portrays the shrinking of All Star's returns even in light of significant increases in monthly local exchange rates. The pinch that this business expansion will have on All Star's near term operations can be seen in the year 2000. This rapidly changes as the new businesses begin to grow in penetration and produce a contribution.

Capital Expenses- The business as usual is projected to remain constant at \$1.1 million per year. This number may be hard to maintain in light of All Star's financial downturn. The new lines of business scenario assumes a network upgrade over a six year period of time, beginning in 1997.

Analysis

The key to developing All Star Telephone Cooperative's financial direction lies in the comparison of what the company will become under a business as usual operation or in a business expansion mode. The significant changes anticipated for the industry have been modeled using the best assumptions we have. It would appear to indicate that cooperatives, such as All Star, must make a change if they want to continue to grow financially.

We have not included the individual lines of business planning assumptions due to the level of detail that is involved. Each line of business was modeled separately and adjusted for assumed local demographics. The financial soundness of each line of business and plan in total was evaluated on a discounted cash flow basis. Assumptions concerning demand and pricing for services have been evaluated to determine the break even points, variability of the assumptions, and level of forecast risk that is resident in the projections. This gives the management team performing the evaluation confidence in the model.

It should be kept in mind that the assumptions and the resulting forecasts have been purposefully made in the most conservative fashion. As can be seen in the graphic representation of the results, the demand forecasts for the planned business expansion could be reduced by over 50% and would still produce substantial improvements in bottom line profitability when compared to the business as usual projections. We have attempted to quantify the impact of only a few of the best known services that could be expected to be provided over a broadband network. This is in no way a comprehensive list of services that can be expected. It is reasonable to expect that many of the services that will ultimately travel this network have not even been conceived of yet. We can, however, be fairly certain that the preferred method to deliver these broadband services will be over a fiber optic based platform.

The investments and expenses necessary to expand All Star's business in the way we have projected are daunting and may seem to be putting the cooperative at risk. In our opinion, it is really a question of perspective with regard to what management wants for the future of the organization. All Star has really only two options. The first is to attempt to remain only a two way voice communications provider and accept a loss of market share and a shrinking of the financial resources of the company due to increased competition and regulatory change. The other option is the aggressive metamorphosis of All Star into a primary communications, information and entertainment service provider in their target market area. This includes the assumption that they will expand their scope in both service area and the types of services offered. The one option that is not available is to maintain their existing market position. There are three statements about the future that are almost irrefutable. There will be competition in All Star's serving area. All Star can not maintain 100% market share. All Star's control over the number and type of customers it loses to competition is at its strongest today and will only become less in the future.

An 18 year discounted payback is certainly long term from what most telephone companies

would consider as acceptable. What has been proposed cannot be evaluated on the basis of an individual project or network upgrade. It is a complete change for All Star in its service relationship with its customers. All Star is no longer a telephone company. Telecommunications is now only a part of what services All Star provides.

There are some investments that telephone company's have had to make in the past that are comparable to the long term capital recovery period that is indicated with this proposed business expansion. Both the upgrades to one party service offerings and more recently SS-7 common channel signaling are similar in their long term nature and necessity to platform the service the customers demand.

The rewards that are available to All Star with the kind of proactive planning that has been proposed here are dramatic. The bar chart included with Schedule 5 best shows the difference in All Star as an aggressive versus a defensive (siege mentality) service provider.

Another interesting, and often overlooked, aspect of the business expansion being considered as part of this plan is the impact on local economic development. As a cooperative this is a major consideration for All Star. Not only is there a significant increase relative to All Star as a local employer (from 30 to 54 in year 2005), but the introduction of several new communications, information and entertainment services will also increase local employment in a ripple fashion. The infrastructure that is established to platform these services will attract a more affluent and better educated customer which will also improve the communities that All Star serves.

STEP into the future with CRONIN COMMUNICATIONS CONSULTANTS

Cronin Communications Consultants provides superior business and marketing management consulting services to independent telephone companies. CCC specializes in helping independent telephone companies expand their business and revenues and plan for the future through strategic planning. CCC advocates superior customer oriented service from the core business to retain customer loyalty. The following provides a partial list of services provided by CCC:

Strengthening the Core Business

Assessment Services

Customer Service Assessment
Organizational Preparedness Assessment
Competitive Assessment

Marketing Services

Market Research
Market Strategy Development
Promotional Campaign Development
Product/Service Costing and Pricing

Ad Agency Services

Graphic Arts
Copy Writing
Brochures
Market Material Development
Newsletters
Logos Designed

Trainning

Training Courses Available On-Site

Cooperative Directors Training
Strategic Planning For Small Telephone Companies
Management and Supervisory Training
Improved Employee Performance
Understanding Competition and Being a Competitive Telco
The Role of Marketing In A Competitive Telephone Company
The Customer Servicing Attitude
Understanding & Using Service Results Indicators
Assessing and Improving Customer Service
Long Distance Resale

Expansion

Business Expansion Services

Feasibility Studies
Business Plan Development
Implementation Planning
Business Contract Management
Market Opportunity Assessment

Business Expansion Projects

Interactive Voice Services
CATV offerings
Broadband Video Services
Long Distance Resale
Long Distance Credit Card and Debit Card
Primary Carrier Conversions
Regulated Access Transport
Competitive Access Services
Competitive Local Services

Planning

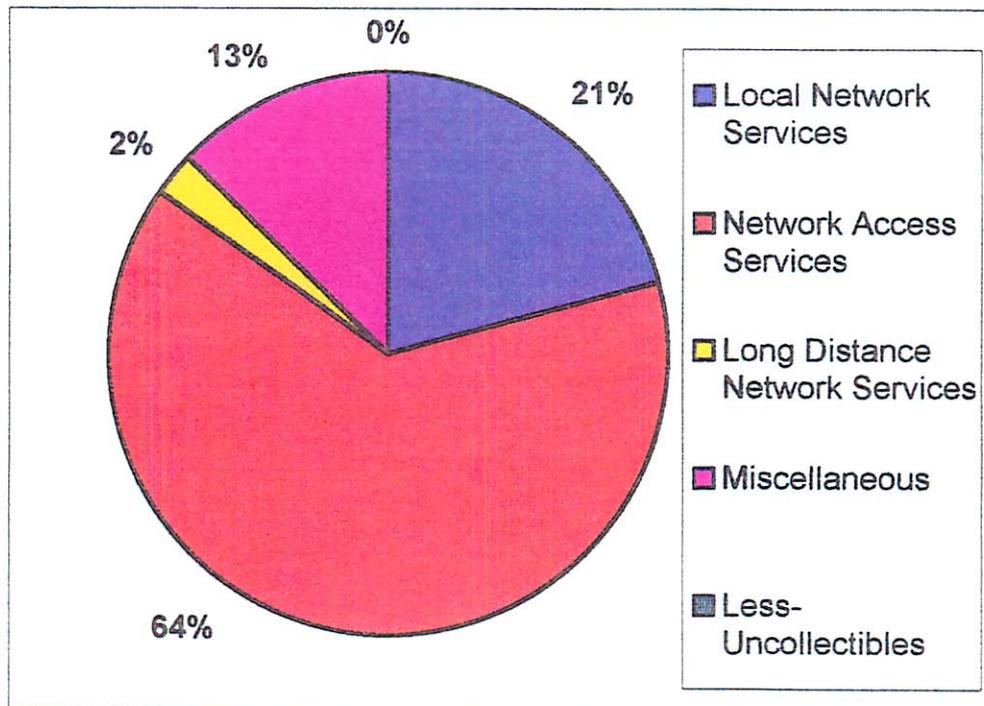
Strategic Planning
Annual Operating Plans
Annual Budgets
Product Planning
Market Planning

SCHEDULE 2 NTCA / ALLSTAR Project 2005

1995 Revenues (Existing Lines of Business)

Revenues

Local Network Services	\$657,594
Network Access Services	\$2,028,492
Long Distance Network Services	\$78,428
Miscellaneous	\$404,658
Less-Uncollectibles	(\$3,846)
Total Operating Revenues	\$3,165,326

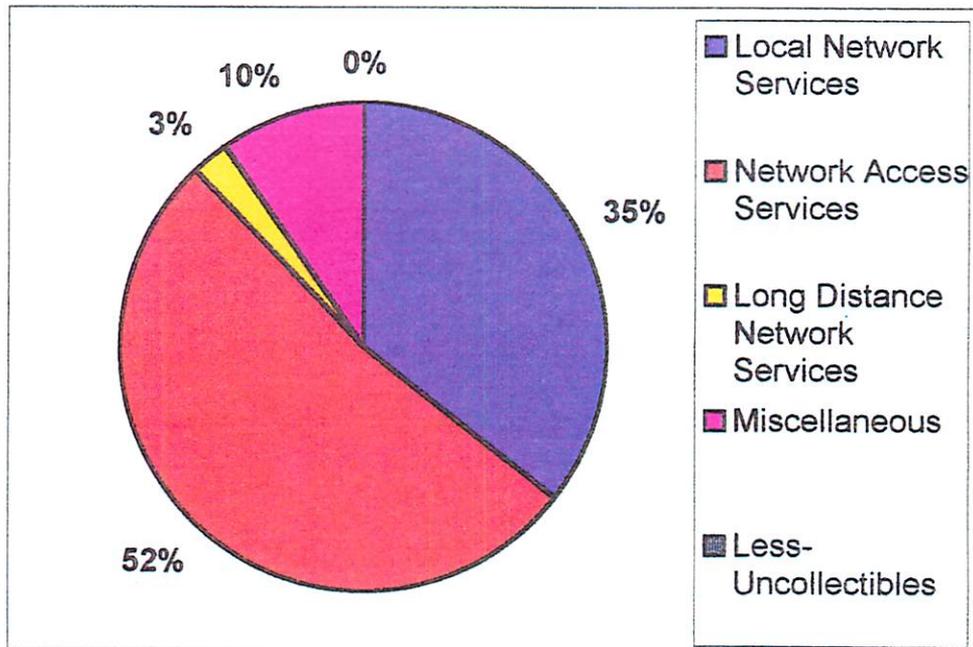


SCHEDULE 3
NTCA / ALLSTAR
Project 2005

2005 Revenues (Existing Lines of Business)

Revenues

Local Network Services	\$1,312,327
Network Access Services	\$1,937,304
Long Distance Network Services	\$95,603
Miscellaneous	\$356,099
Less-Uncollectibles	(\$3,888)
Total Operating Revenues	\$3,699,185

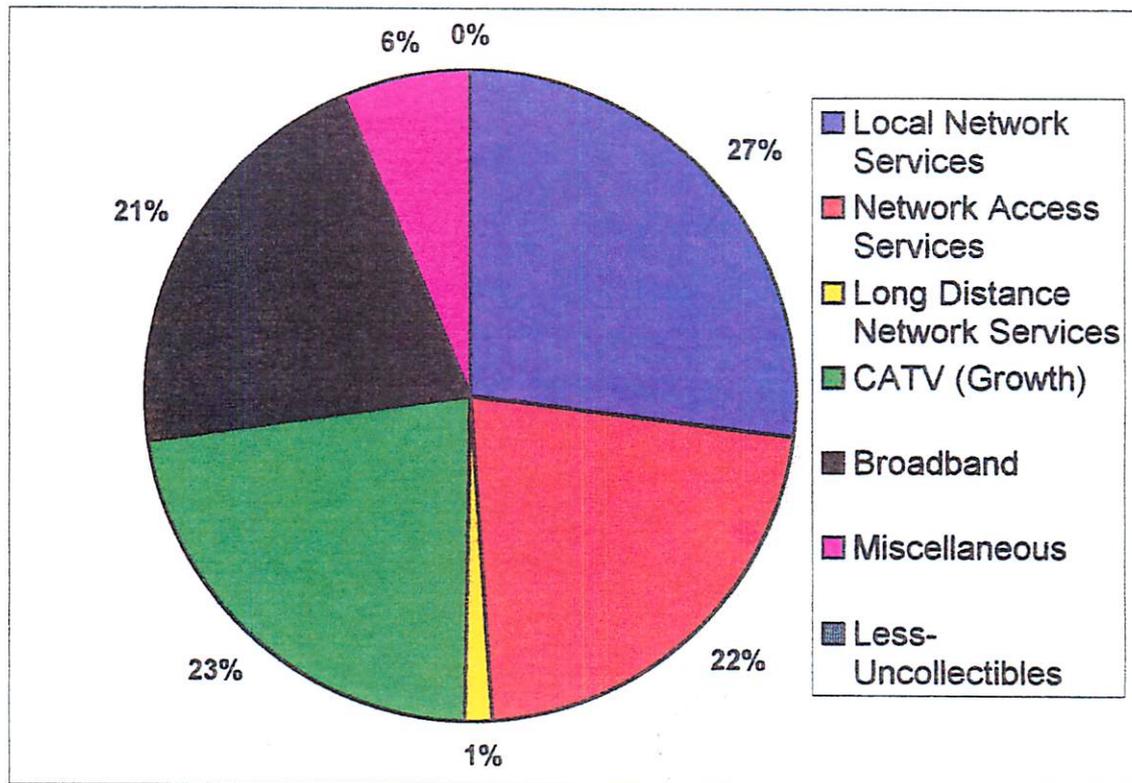


SCHEDULE 4 NTCA / ALLSTAR Project 2005

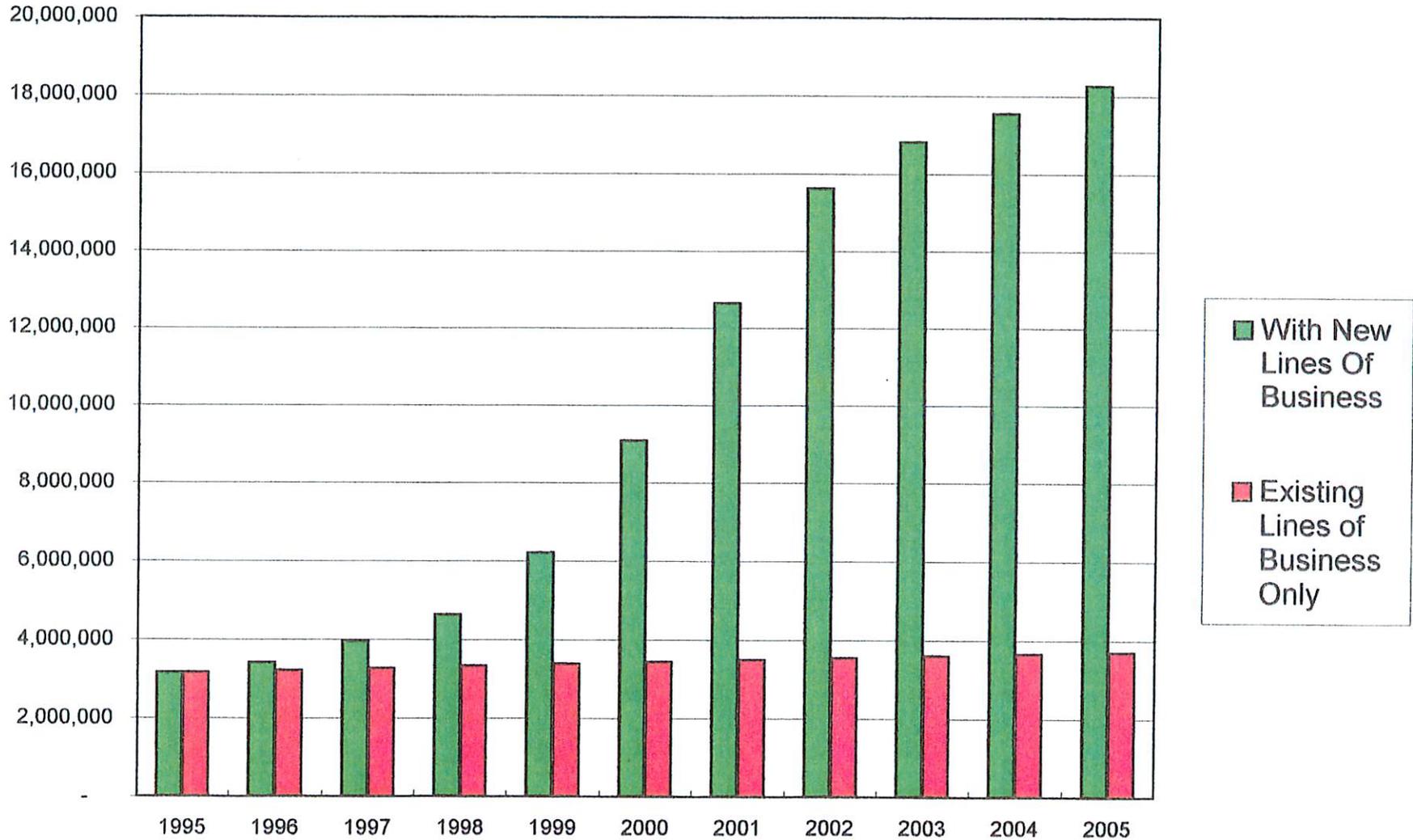
Revenues

2005

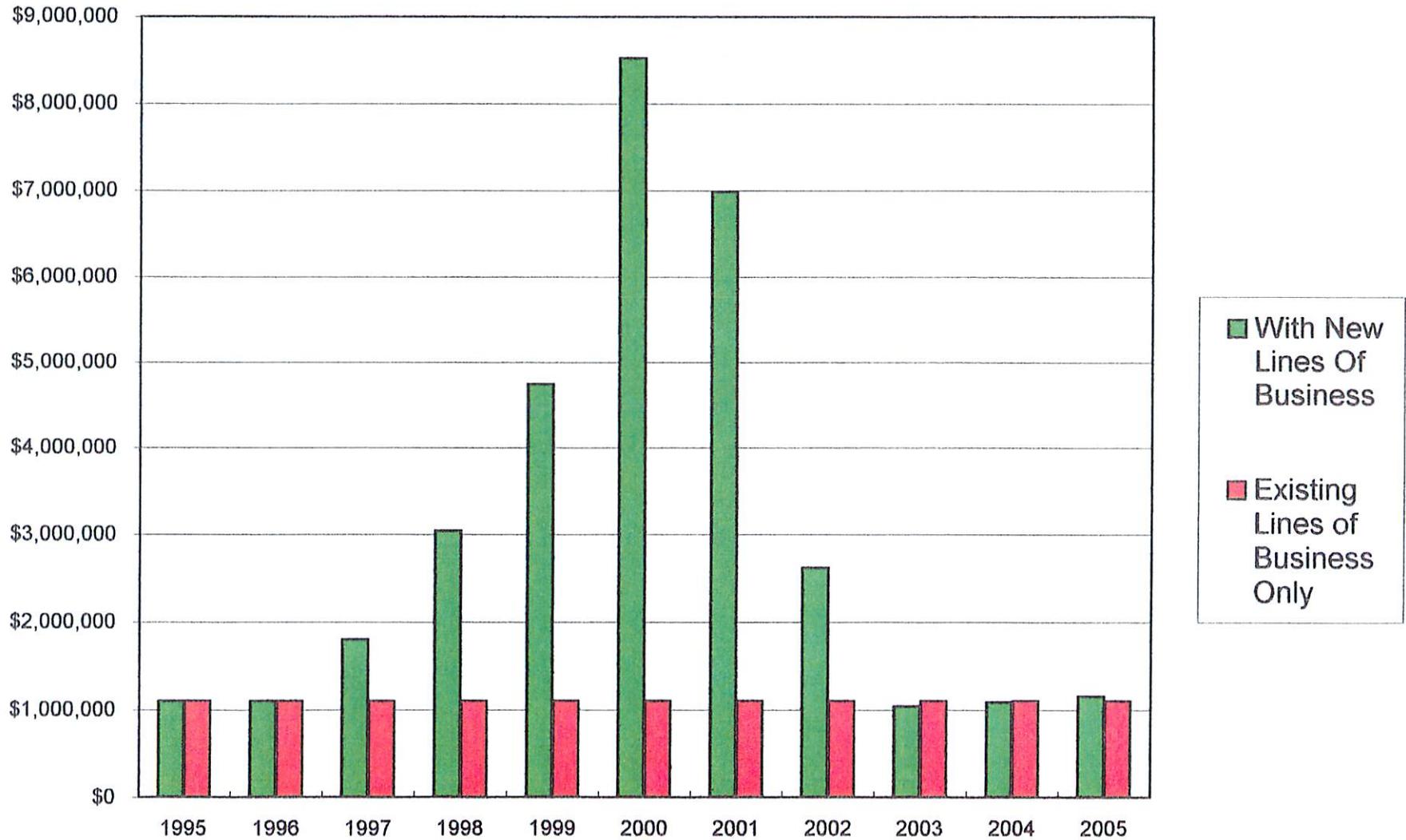
Local Network Services	\$4,928,164
Network Access Services	\$4,030,623
Long Distance Network Services	\$236,313
CATV (Growth)	\$4,136,615
Broadband	\$3,802,615
Miscellaneous	\$1,156,230
Less-Uncollectibles	(\$19,205)
Total Operating Revenues	\$18,271,355



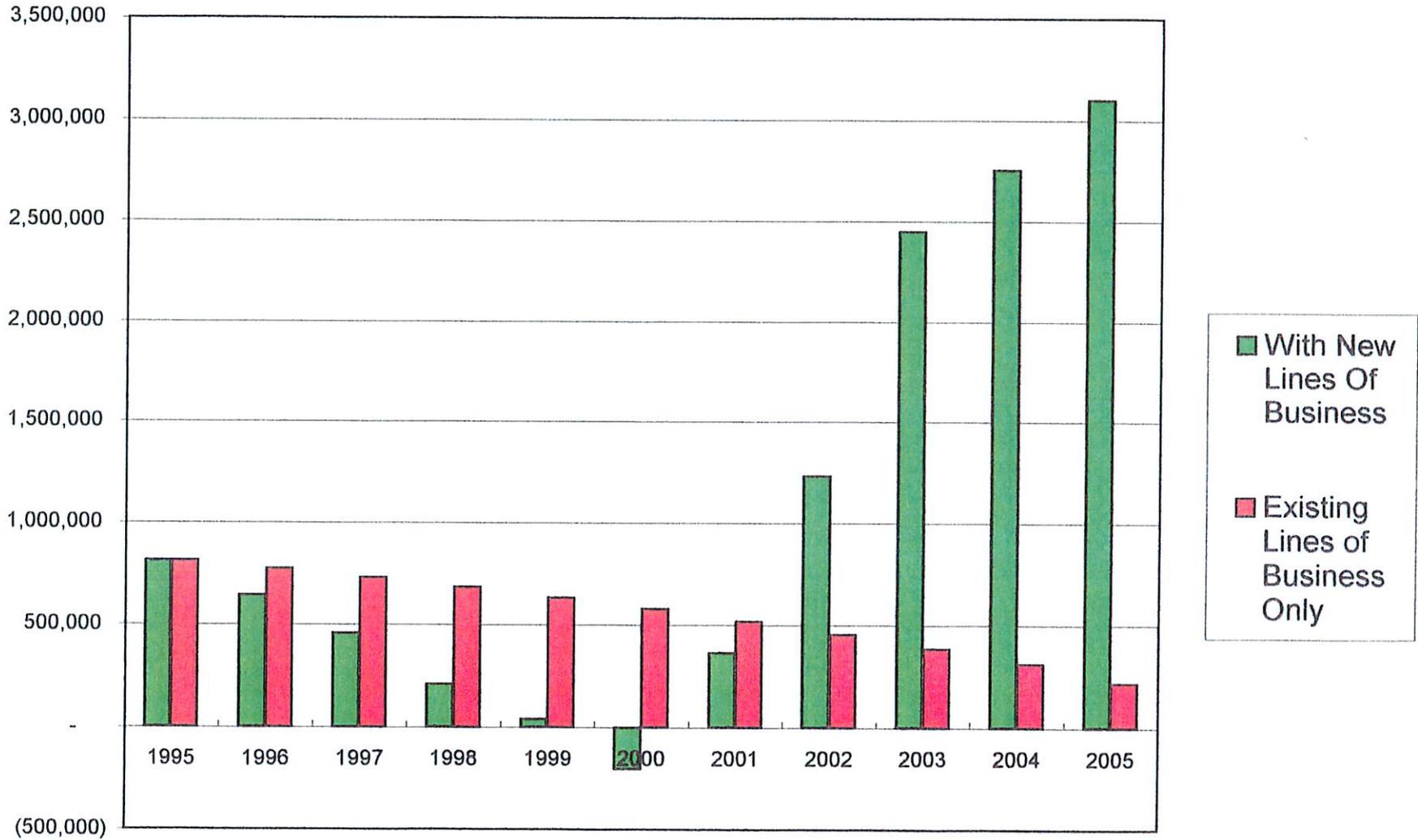
SCHEDULE 5
NTCE / ALLSTAR
Includes vs. Excludes New Lines of Business
Revenues



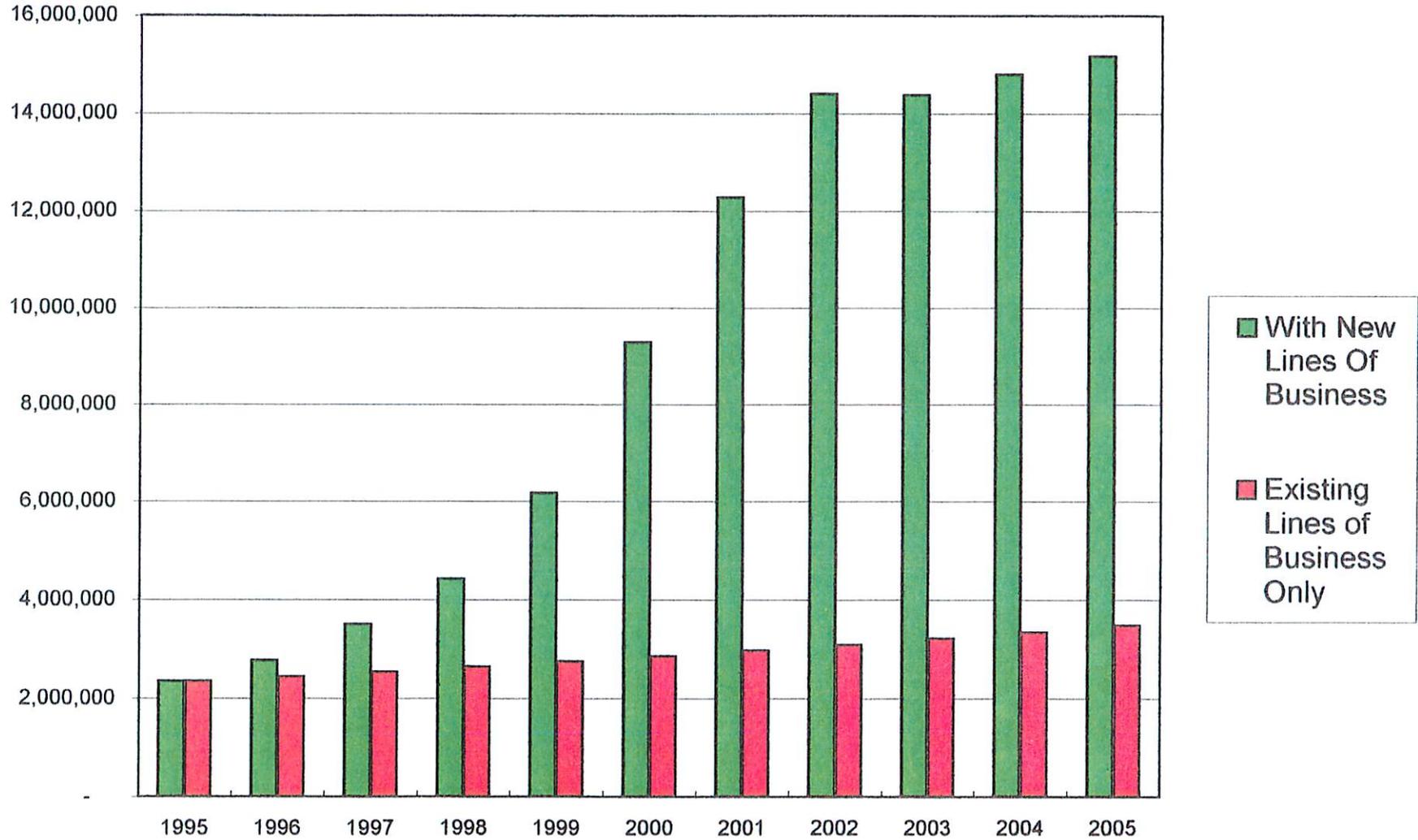
SCHEDULE 5
NTCE / ALLSTAR
Includes vs. Excludes New Lines of Business
Capital Expenses



SCHEDULE 5
NTCE / ALLSTAR
Includes vs. Excludes New Lines of Business
Net Pretax Income



SCHEDULE 5
NTCE / ALLSTAR
Includes vs. Excludes New Lines of Business
Operating Expenses/Depreciation and Interest Expense



APPENDIX B

MATRIX OF CHALLENGES AND OPPORTUNITIES

Matrix of Challenges and Opportunities

Overall Density of Areas Served

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
HIGH	<ul style="list-style-type: none"> Any competition (fixed and/or mobile) likely higher in town/suburbs. Marketing/other challenges in securing/retaining customers. Larger number of Business & Enterprise customers present opportunities. 	<ul style="list-style-type: none"> Fiber investment critical to compete with any high-speed alternatives. May require multiple technology platforms, even if small company. ROW/permitting issues to deploy in more populated areas. 	<ul style="list-style-type: none"> Access to capital should be easier based on better business model. Small operators could have issues scaling to demand. Managing costs and retaining employees in competitive environment. Cost per FTE could be driven higher. 	<ul style="list-style-type: none"> Limited availability of USF for serving dense coverage area; competitive overlap could create decrease in support. Higher-margin business could create a lower reliance on support revenues. Municipal franchising/permitting issues possible. 	<ul style="list-style-type: none"> Development of proactive sales culture is crucial in competitive markets. Continual evaluation of new products/services is critical. 	<ul style="list-style-type: none"> Opportunities with municipal/ etc. economic development initiatives. Quicker ROI for targeted investment.
MEDIUM	<ul style="list-style-type: none"> Rural areas likely outweigh town footprint. Heavier residential customer base relatively makes business case tougher. Higher competition in town, less in suburban areas. 	<ul style="list-style-type: none"> Fiber investment likely in towns, but rural area footprint harder. Managing multiple technology platforms likely necessary. ROW/permitting issues in deploying in both towns and across federal lands (if any). 	<ul style="list-style-type: none"> Harder to attract capital. Longer payback and lower ROI. Difficulty of scale—relatively small still. Must monitor FTE counts and train for cross-functional teams. Access to highly skilled workforce could be a challenge. 	<ul style="list-style-type: none"> Reliance on support revenues would be higher, but availability with budgets may be issue. ROW/permitting issues in deploying in both towns and across federal lands (if any). 	<ul style="list-style-type: none"> Retaining employees in possible competitive environments. Need to focus on new lines of business to stay current. 	<ul style="list-style-type: none"> Less competition creates opportunities for product development, even growth. Greater certainty of revenue projections.
LOW	<ul style="list-style-type: none"> Rural areas likely outweigh town footprint. Heavier residential customer base makes business case tougher. Likely little to no competition due to geography. 	<ul style="list-style-type: none"> Fiber investment likely in towns, but rural area footprint much harder. Managing multiple technology platforms likely necessary. 	<ul style="list-style-type: none"> Harder to attract capital. Longer payback and low ROI. Difficulty of scale. Must monitor FTE counts and train for cross-functional teams. Managing costs operating across wide area. ROI challenges given rural serving area. Limited customer base. 	<ul style="list-style-type: none"> Lower proportions of business customers will increase reliance on support/regulated revenue. Reforms and support budget caps will have greater impact. 	<ul style="list-style-type: none"> Attracting and retaining employees in very rural markets. Cross functional teams would be critical to long-term success. 	<ul style="list-style-type: none"> Smaller team can most likely be nimbler. Opportunities to partner with other companies could help financial viability.

Addressable Market Size (Including Reasonable Opportunities for Geographic Expansion)

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
VERY SMALL	<ul style="list-style-type: none"> • Very few customers to split between few competitors (if any exist). • Prospect of smart grid expansion. • Likely little real data regarding customers available. • Little availability to market to noncustomers. • Difficulty of scale for less dense regions. 	<ul style="list-style-type: none"> • Availability of quality employee pool for new hires/retention issues. • Probably more rural, more investment required for plant and backhaul. 	<ul style="list-style-type: none"> • More investment required for plant and backhaul vs number of customers served with plant. • Lack of ability to scale for less dense regions. • New revenue streams limited by small customer base. • Cost to roll out new products to limited customer base. • Rural areas not likely growing. • Dependent upon limited business sectors, if any. • Limited financing options. 	<ul style="list-style-type: none"> • Availability of new revenue streams limited by small addressable market. • Reliance on vendors for most regulatory functions if not big enough to staff in-house. • USF recovery limited for new builds to new locations—may hinder business case for buildout/upgrade/expansion. • Regulatory expenses to serve a very small group of customers can be cost prohibitive. 	<ul style="list-style-type: none"> • With small amount of customers, difficult to stay independent unless covering large geographic area, which brings own challenges. • Little leverage to negotiate contracts with vendors/suppliers for more favorable rates. • Harder to attract/retain technical and other qualified staff. 	<ul style="list-style-type: none"> • Nimble—easier to share resources, vendors, staff or switching, etc. • Desire to share resources/expenses may make partnering with others easier—other telcos and other entities (electric co-ops, municipalities, etc.). • Small communities can help foster customer loyalty. • Proactive mergers or joint telco management agreements. • Potential for micro loans, grants and EDC partnerships in rural depressed areas.
SMALL	<ul style="list-style-type: none"> • Very few customers to split between few competitors (if any exist). • May be just enough market to attract competitors, but perhaps not enough to support 2 networks. • Prospect of smart grid expansion. • No real data regarding customers available. • Little availability to market to non-customers. • Difficulty of scale for less dense regions. 	<ul style="list-style-type: none"> • Availability of quality employee pool for new hires/retention issues. • Fairly rural, more investment required for plant and backhaul. 	<ul style="list-style-type: none"> • More investment required for plant and backhaul vs. number of customers served with plant. • Lack of ability to scale for less dense regions. • New revenue streams limited by small customer base. • Cost to roll out new products to limited customer base. • Rural areas not likely growing. • Dependent upon limited business sectors, if any. • Limited financing options. 	<ul style="list-style-type: none"> • Availability of new revenue streams limited by small addressable market. • Reliance on vendors for most regulatory functions if not big enough to staff in-house. • USF recovery limited for new builds to new locations—may hinder business case for buildout/upgrade/expansion. 	<ul style="list-style-type: none"> • With small amount of customers, difficult to stay independent unless covering large geographic area, which brings own challenges. • Little leverage to negotiate contracts with vendors/suppliers for more favorable rates. • Harder to attract/retain technical and other qualified staff. 	<ul style="list-style-type: none"> • Easier to share resources. • Desire to share resources/expenses may make partnering with others easier—other telcos and other entities (electric co-ops, municipalities, etc.). • Small communities can help foster customer loyalty. • Proactive mergers or joint telco management agreements. • Potential for micro loans, grants and EDC partnerships in rural depressed areas.

Addressable Market Size (Including Reasonable Opportunities for Geographic Expansion)

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
MEDIUM	<ul style="list-style-type: none"> • More competition but still small marketing opportunities. • Prospect of smart grid expansion. • If fast-growing, investment may not match pace of growth. • Marketing may be costly for reach. 	<ul style="list-style-type: none"> • Availability of quality employee pool for new hires/retention issues. • More competition means upkeep to latest technologies. • More services needed to compete where payoff may not be there. 	<ul style="list-style-type: none"> • Are there enough customers for new services? Breakeven may be harder to hit with fewer customers, but demand high enough to warrant adding products. • Does sharing resources and staff makes sense? Difficult call at this scope. • Dependent upon limited business sectors, if any. 	<ul style="list-style-type: none"> • Reliance on vendors for most regulatory functions if not big enough to staff in-house. • USF recovery limited for new builds to new locations—may hinder business case for buildout/upgrade/expansion. 	<ul style="list-style-type: none"> • Capability/scale to do things on own rather than need partners/collaborators. • Capability to negotiate contracts with vendors/suppliers can present challenges. • More competition for highly skilled workforce. 	<ul style="list-style-type: none"> • Desire to share resources/expenses may make partnering with others easier—other telcos and other entities (electric co-ops, municipalities, etc.) • Smaller communities may help foster customer loyalty.
LARGE	<ul style="list-style-type: none"> • Lots of competition, mix of technologies. • If fast-growing, investment may not match pace of growth. 	<ul style="list-style-type: none"> • More competition means upkeep to latest technologies. • More services needed to compete (i.e., video) where payoff may not be there. 	<ul style="list-style-type: none"> • Cities large enough for robust economic development programs—can be a pro or a con. • Cost/revenue per customer more critical in higher density/more competitive area. 	<ul style="list-style-type: none"> • Prospect for multi-jurisdiction regulatory challenges, playing by different rules in different areas/states. 	<ul style="list-style-type: none"> • More competition for highly skilled workforce. 	<ul style="list-style-type: none"> • Many opportunities for new customers, new partnerships, etc. • Greater need to work with and acceptance of newer technologies platforms—smart home, OTT Video, etc. • Proactive management of overhead costs—staffing, benefits, etc.—can create readiness to leap at opportunities.
VERY LARGE	<ul style="list-style-type: none"> • Great competition from multiple technologies. • If fast-growing, investment may not match pace of growth. 	<ul style="list-style-type: none"> • Must have latest technologies to compete/grow. • Must keep service mix fresh and up to date. 	<ul style="list-style-type: none"> • Cities large enough for robust economic development programs—can be a pro or a con. • Cost/revenue per customer more critical in higher density/more competitive area. 	<ul style="list-style-type: none"> • Prospect for multi-jurisdiction regulatory challenges, playing by different rules in different areas/states. 	<ul style="list-style-type: none"> • More competition for highly skilled workforce. 	<ul style="list-style-type: none"> • Many opportunities for new customers, new partnerships, etc. • Greater need to work with and acceptance of newer technologies platforms—smart home, OTT Video, etc. • Proactive management of overhead costs—staffing, benefits, etc.—can create readiness to leap at opportunities.

Company Size (Total Revenues)

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities	
VERY SMALL	<ul style="list-style-type: none"> Generalized staff expertise—"jack of all trades, master of none." Lack of purchasing power, bulk rates, specials or access to latest consumer technology, IOT. Potential for substantial competitive overlap or even takeover is greater depending upon market factors. Product development done with shared resources; reliance on top down vendor enhancements to drive products. Customer may perceive very small company, dismiss technical capability. Limited to no staff resources to commit to consumer changes/demands. 	<ul style="list-style-type: none"> Staffing back up and depth problems. Heavy reliance on expensive outsourcing for expertise not on hand. Increasing operational overhead. Lack of purchasing power and increasing maintenance costs from suppliers. Heavy reliance on vendor enhancements, developments. Network reach and resources may be limited (distribution and long-haul). 	<ul style="list-style-type: none"> Limited staff expertise, with no potential for staff growth and development without outsourcing. Limited Staff Expertise, with minimal potential for staff growth and development. 	<ul style="list-style-type: none"> Smaller company size comes with minimal expansion into new services without outside partnerships. Access to capital and loan requirements are tightening, harder to get without significant collateral/assets, or financial predictability. Minimal industry diversification if small geographic footprint, or company size. Generally fewer opportunities for diversification outside the industry without partnerships. Vendor industry moving to OPEX model. 	<ul style="list-style-type: none"> Heavy reliance on group and national representation to be heard. Pressure to consolidate. Potential for substantial competitive overlap or even takeover is greater depending upon market factors. Heavy reliance on outsourcing to keep up with regulatory changes and requirements. Regulatory burdens higher on a per customer basis. 	<ul style="list-style-type: none"> Attracting/retaining employees. Not large enough to be considered when resource sharing, collaboration/partnership, or consolidation tactics are under consideration. Staff sharing and operational cross-training opportunities minimized. 	<ul style="list-style-type: none"> Small/Nimble, easier to adapt/change—if willing. Greater connectivity and cloud computing offering more options than before. Shift to a shared management and operational resources helps operational efficiencies. Communications with staff and customer often easier, sometimes too easy.
SMALL					<ul style="list-style-type: none"> Attracting/retaining employees. Limited impacts/sway when resource sharing, collaboration/partnership, or consolidation tactics are under consideration. Staff sharing and operational cross-training opportunities minimized. 	<ul style="list-style-type: none"> Right size to have some meaningful collaboration drivers/sway. Cloud-based providers allow smaller telcos to enter new lines of business more easily. Shift to a shared management or staffing resources with neighboring or like-sized/natured companies. 	

Company Size (Total Revenues)

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
MEDIUM	<ul style="list-style-type: none"> Large enough to attract competition but small enough to lack significant resources to compete. Company resources shared between multiple services and business units. Difficulty keeping up with consumer demands, online content, and traditional video content and costs. 	<ul style="list-style-type: none"> Not big enough company size to get many bulk discounts or pricing considerations. Increasing operational overhead/maintenance along with potential pressure on consumer pricing. Staffing back up and depth could be a problem in some areas. Technological changes and advancements may require more monitoring than company is capable of handling Technical staff turnover typically grows as company size grows. 	<ul style="list-style-type: none"> Financing requirements are tightening, harder to get without collateral/assets. Less financial diversity within communications industry footprint. Vendor industry moving to OPEX model. In the middle of the pack for consolidation or partnership opportunities. 	<ul style="list-style-type: none"> Heavy reliance on group and national representation to be heard. Pressure to consolidate. Potential for substantial competitive overlap or even takeover is greater depending upon market factors. Heavy reliance on outsourcing to keep up with regulatory changes and requirements. Regulatory burdens higher on a per customer basis. 	<ul style="list-style-type: none"> Attracting/retaining employees. Limited impacts/sway when resource sharing, collaboration/partnership, or consolidation tactics are under consideration—"stuck in the middle." 	<ul style="list-style-type: none"> Good spot for collaboration given combination of nimble company with access to larger capital reserves than many others. Opportunities for shared management/resources with neighboring telcos. More likely to keep expertise and strike balance with need for outsourcing.
LARGE	<ul style="list-style-type: none"> Difficulty keeping up with consumer demands, online content, and traditional video content and costs. Difficulty managing small community feel and touch with larger company scope and scale. Hometown community reach in many hometowns. Consistent brand, message and communication is harder the bigger the company size. 	<ul style="list-style-type: none"> Increasing maintenance costs from suppliers. Increasing operational overhead/maintenance along with pressure on consumer pricing. Technological changes and advancements may require more monitoring than company is capable of handling (e.g., 24/7 NOC?). Technical staff turnover typically grows as company size grows. Small changes in vendor capability mean big changes for larger companies due to scale. Supply chain management is critical and sometimes cumbersome. 	<ul style="list-style-type: none"> Vendor Industry moving to OPEX model. Larger companies typically mean larger projects and need for capital to stay current/ahead of competition. 	<ul style="list-style-type: none"> Likely multiple state regulatory requirements and sometimes holding company considerations. Different study areas within same holding company could require different regulatory considerations and strategies. 	<ul style="list-style-type: none"> Attracting/retaining employees easier than smaller companies, but still an issue in rural markets. Larger rural company usually means large geographic spread of operations locations and offices. 	<ul style="list-style-type: none"> Larger companies could capitalize on operational efficiencies or practices as revenue opportunities with smaller or like-sized telcos. Significant opportunities for shared management/resources with neighboring telcos. More likely to keep expertise and strike balance with need for outsourcing, subject to competitive marketplace.

Relative Ratio—Business:Residential Customers

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
HIGH	<ul style="list-style-type: none"> • Significant likelihood of attracting competition. • Marketing/sales challenges as providers compete. • Increased cost of customer acquisition and customer care due to SLAs. 	<ul style="list-style-type: none"> • Increase in need for technical skilled labor and sales force. • Additional CapEx and OpEx required for government and enterprise customers. 	<ul style="list-style-type: none"> • Lower market penetration and revenue due to likely increased competition. • Need to work through costs of securing permitting to build and operate in cities and towns. 	<ul style="list-style-type: none"> • Burdens associated with navigating state and local permitting. • Availability of support unlikely considering market dynamics (likely competitive providers/lower costs). • Change in support could change funding from key accounts (E-Rate). 	<ul style="list-style-type: none"> • Rapid growth could cause strain on staffing requirements (cost of employee acquisition). • Market location—may result in increased cost for services or requirement to duplicate services. • Risk in technology shift and market disruptors. 	<ul style="list-style-type: none"> • ARPU growth. • Quicker potential ROI and profitability. • Lower OpEx per customer. • Build out of additional facilities that may provide alternative revenue generating opportunities.
MEDIUM	<ul style="list-style-type: none"> • Greater likelihood of attracting competition. • Potential increase in marketing cost in approaching different market groups. 	<ul style="list-style-type: none"> • Increased cost in supporting multiple platforms (vendors) to meet varying residential and enterprise needs. 	<ul style="list-style-type: none"> • Potential cost increase in capital for plant design to serve different market groups. • Need to work through costs of securing permitting to build and operate in cities and towns. 	<ul style="list-style-type: none"> • In new markets, local government may impose conditions upon build/access. • Burdens associated with navigating state and local permitting. 	<ul style="list-style-type: none"> • Diverse marketing plans. • Staffing and training to handle two different market segments. • Risk in technology shift and market disruptors. 	<ul style="list-style-type: none"> • Balance of market between residential and business may provide greatest risk mitigation due to diversification.
LOW	<ul style="list-style-type: none"> • Little opportunity to grow enterprise segment. • Long return on investment. • If existing market, ability/desire to innovate. • If new market, difficulty in penetrating and creating scale. 	<ul style="list-style-type: none"> • Potentially requires a different business model and platform to cost effectively serve some low-revenue residential locations. 	<ul style="list-style-type: none"> • Longer ROI (if any at all). • Inelastic consumer retail rate tolerance. • Limited access to capital for purely residential/rural builds. 	<ul style="list-style-type: none"> • Higher percentage of residential customers could increase reliance on support/regulated revenue. 	<ul style="list-style-type: none"> • Risk in technology shift and market disruptors. • Lack of contract may result in customer churn. • Market may support only a single provider. 	<ul style="list-style-type: none"> • Less risk of extreme revenue reversal due to broader subscriber base. • First to market is advantage, due to weak ROI.

Competitor Presence

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
NONE	<ul style="list-style-type: none"> • Are consumers getting the services they need? • Overcoming/constantly challenging “monopoly mentality.” 	<ul style="list-style-type: none"> • Finding incentive and capability to upgrade existing networks in advance of competition manifesting. 	<ul style="list-style-type: none"> • High cost of fiber buildout to firm up presence in market. • Scale as compared to larger competitor; ability to be nimble in event of smaller competitor. 	<ul style="list-style-type: none"> • High regulatory compliance costs. • Budget controls, significant changes to cost and regulatory instability. 	<ul style="list-style-type: none"> • Motivating workforce. • Finding incentives to serve customers well. • Need to monitor for inefficiency in processes. • Staying current on best practices and products. 	<ul style="list-style-type: none"> • Customer service can engender loyalty and keep market. • Make sure network is cutting-edge/up-to-date to retain market. • Upgrading network can be a great opportunity to increase ARPU.
LIMITED/ SOME OVERLAP	<ul style="list-style-type: none"> • Transition from order takers to proactive sales organizations. • Recognizing and preparing strategies for best of breed market pricing and product trends, perhaps differentiated by area. • Ability to offer compelling services and bundles to compete. 	<ul style="list-style-type: none"> • Finding incentive and capability to upgrade existing networks in non-competitive areas. • Managing potentially different platforms in different parts of market. • Offering capabilities and attractive pricing to consumers. • Techs must be desirous and capable of providing services and products beyond the demark. • Increase capabilities in IT—consider newly available hardware and software tools to help drive efficiency in areas that are costly to service. 	<ul style="list-style-type: none"> • Access to capital may be more difficult due to higher financial risk, particularly if competitor serves denser population only. • Scale as compared to larger competitor; ability to be nimble in event of smaller competitor. • Becoming more efficient to align costs with competitor. 	<ul style="list-style-type: none"> • Unsubsidized competitor and disaggregation of costs. • Higher compliance costs that likely competitor. • Unequal treatment for tariff filings vis-à-vis competitor, time to market for new services. • Budget controls, significant changes to cost and regulatory instability. 	<ul style="list-style-type: none"> • Driving customer focused culture/strategy throughout organization. • Increased training for sales representatives, customer service staff. • Ensuring network and customer services are unique & superior to competitor—and balancing across different areas. 	<ul style="list-style-type: none"> • Customer service can engender loyalty and keep market, leveraging good service experience in noncompetitive areas too. • Make sure network is cutting-edge/up-to-date to compete/contrast with lesser network of competitor. • Upgrading network can be a great opportunity to increase ARPU. • Prospect of exiting higher-cost areas where customers are already served and if no support there any longer (e.g., WISP competition)? • New IT tools, increased sales/marketing efforts, and different technology strategies can yield benefits, generate new insights and create efficiencies across business.

Competitor Presence

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
SUBSTANTIAL/ TOTAL OVERLAP	<ul style="list-style-type: none"> Transition from order takers to proactive sales organizations. Ability to offer compelling services and bundles to compete. Recognizing and preparing strategies for best of breed market pricing and product trends. Develop strategies that can compete while not losing company culture and commitment to customers. 	<ul style="list-style-type: none"> 5G wireless, WISP, even satellite may marginalize customers served over copper networks. Building/maintaining network to be better/faster than competitor. Offering capabilities and attractive pricing to consumers. Techs must be desirous and capable of providing services and products beyond the demark. Increase capabilities in IT—consider newly available hardware and software tools to help drive efficiency in areas that are costly to service. 	<ul style="list-style-type: none"> Access to capital may be more difficult in fully competitive marketplace. Scale as compared to larger competitor; ability to be nimble in event of series of smaller competitors. Loss of end-user revenues due to churn. Becoming more efficient to align costs with competitor. Managing new and more aggressive pricing and product positioning strategies. 	<ul style="list-style-type: none"> Unsubsidized competitor with limited/no ability for disaggregation of costs. Still high(er) regulatory compliance costs? Unequal treatment for tariff filings, rate cases, impacting time to market for new services. Budget controls, significant changes to cost and regulatory instability. 	<ul style="list-style-type: none"> Driving customer focused culture/strategy throughout organization. Increased training for sales representatives, customer service staff. Ensuring network and customer services are unique & superior to competitor. Managing employee expectations in a competitive marketplace. 	<ul style="list-style-type: none"> Forced efficiency and enhanced service offerings to compete can make for more resilient, compelling company. Substantial competition forces resourcefulness and can drive necessary changes in organization as well as foster expansion strategies into other markets. Make sure network is cutting-edge/up-to-date to compete/contrast with lesser network of competitor. Upgrading network can be a great opportunity to increase ARPU. Greater flexibility to “pick spots” for service provision depending upon market need/challenges. New IT tools, increased sales/marketing efforts, and different technology strategies can yield benefits, generate new insights, and create efficiencies across business.

Reliance on Support/Regulated Revenues

	Competitive & Consumer Challenges/Issues	Technological Challenges/Issues	Financial (Nonregulatory) Challenges/Issues	Regulatory Challenges/Issues	Other Operational Challenges/Issues	Opportunities
NONE	<ul style="list-style-type: none"> Market driven flexibility in pricing, products, and services. Most likely serving a competitive market of varying degrees, cost to build must be lower than average rural carriers and therefore density will likely be more favorable in the market. 	<ul style="list-style-type: none"> No guarantee of ROI without regulated support. No support for investment in replacement or the upgrading of infrastructure due to age, damage or poor technical product decisions. 	<ul style="list-style-type: none"> Greater access to nongovernmental sourced capital, but % cost of capital may be greater, and covenants may be more stringent. Predictable forecasting without regulatory uncertainty, although customer churn and other market factors present. 	<ul style="list-style-type: none"> No negative impact. Minimal cost involved in ensuring accurate and optimized cost allocation. Less dependence on regulatory consultants. Reductions in associated accounting and staff education costs. 	<ul style="list-style-type: none"> Market-based challenges Other lines of business are likely operating or available. Complexities that come with a diverse product and service offering. Operational costs are carried by the consumers, increases would be directly impactful to the customer's bill and/or the bottom line. 	<ul style="list-style-type: none"> Operator "controls" own destiny with planning, ability to execute and access to capital. Opportunities could be evaluated on a business model basis. No restrictions of regulation would provide for more flexibility.
LOW	<ul style="list-style-type: none"> More likely serving competitive market(s). Ability to be more flexible in pricing/product offering. 	<ul style="list-style-type: none"> Little support allows for a small safety net for bad technical decisions. Limited flexibility in service offerings over plant depending upon level of regulation. 	<ul style="list-style-type: none"> Decent access to nongovernmental sourced capital, but % cost of capital may be greater, and covenants may be more stringent. 	<ul style="list-style-type: none"> Low impact. Need general awareness of rule changes and potential impact to your business, but those changes may not be as impactful as cost recovery-related regulation. 	<ul style="list-style-type: none"> Market-based challenges More flexibility in business and operations due to less dependency. Complexities that come with a diverse product and service offering. 	<ul style="list-style-type: none"> Excellent position to capitalize on opportunities, with limited concern for regulated revenue impacts.
MEDIUM	<ul style="list-style-type: none"> Ability to be somewhat flexible with pricing/product offering. Less likely to have competition in a large portion of serving area. 	<ul style="list-style-type: none"> Somewhat limited in the ability to offer nonregulated offerings due to settlement impact (cost allocation). Investment in robust technical network offers certain ROI. 	<ul style="list-style-type: none"> Options likely more limited to government sourced capital with outside sources unlikely due to regulatory uncertainty. Outside financing may be available in situations. 	<ul style="list-style-type: none"> Support mechanisms would play a major role in the success of the business and would be a major driver in all decisions. 	<ul style="list-style-type: none"> Maximizing regulated revenues while growing or adding new nonregulated revenues. Controlling operational costs through new efficiencies and/or subsidiary to create a new embedded cost base. 	<ul style="list-style-type: none"> Reliance on support may require/drive diversification planning and willingness to explore new opportunities (even if limited in nature/scope).
HIGH	<ul style="list-style-type: none"> Reliance on support and the pricing restrictions that go with it likely limit flexibility in pricing/product offering. Unlikely to have larger aggressive competitors in the majority area of these markets. 	<ul style="list-style-type: none"> Nonregulated services—Wireless, IT, DC, TV—could strap your use of existing assets due to cost allocation impacts on regulated plant. Investment in robust technical network infrastructure offers a level of certain ROI in this environment. 	<ul style="list-style-type: none"> Options likely limited to government sourced capital, and outside sources unlikely due to financial forecasting with the constraints of regulatory uncertainty and low, long-term ROI. 	<ul style="list-style-type: none"> Very susceptible to regulatory changes, business decisions are more regulatory evaluations. Regulatory changes in funding/cost recovery mechanisms could be severely impactful. 	<ul style="list-style-type: none"> Nearly every decision is based on regulatory impact, not just market factors. Reductions in support have direct impact on policies and procedures of the company. Growing scale, partnering, joint efforts, trimming costs, increasing efficiency and ultimately reducing the reliance on regulated revenue must be considered. 	<ul style="list-style-type: none"> Previously unexplored products, services, and new lines of business could prove to be opportunities for growth previously overlooked due to "safety net" of regulated support.

APPENDIX C

MEMBERS OF THE FUTURES TASK FORCE

Seth Arndorfer, Dakota Carrier Network

William Bradford, United Communications

Chad Bullock, West Central Telephone
Association

Shilah Butler, Copper Valley Telecom

Craig Cook, Hill Country Telephone Cooperative

Eric Cramer, Wilkes Communications

Dustin Durden, Pineland Telephone Cooperative

Paul Hauer, Consolidated Business Services

Jeff Leslie, ITS Telecom

Dan Lindgren, Ketchikan Public Utilities

Kevin McGuire, Enhanced
Telecommunications Corp.

Jason Miller, Delhi Telephone Co.

Stephen Milner, Planters Telephone Cooperative

Catherine Moyer, Pioneer Communications

Christine O'Connor, Alaska Telephone
Association

Jennifer Otwell, Totelcom Communications

Ross Petrick, Alliance Communications

Craig Smith, MGW Telephone

Jonathan West, Twin Lakes Telephone
Cooperative

Kristi Westbrook, Consolidated
Telecommunications Co.

Jason Williams, Blackfoot Communications

A Practical Guide to Charting One's Own Course

Success, Failures and Lessons Learned in Rural Telecom

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4121 Wilson Blvd., Suite 1000
Arlington, VA 22203
703-351-2000 • www.ntca.org