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# X-CHANGE™

INFORMATION AND ANALYSIS ON THE EMERGING COMPETITIVE LOCAL EXCHANGE

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## FULL SERVICE STRATEGIES

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# Need Watts, Bi Look To The In

By Geof Petch

Regulated business was simple: costs plus guaranteed allowable profit equaled revenue. In the new world, revenue is not guaranteed to exceed costs. Today, in both the telecommunications and electric industries, public policies have moved to embrace competition as the preferred tool for regulation. Our older notion of economies of scale may become less important than a new notion of economies of scope.

Utilities in both market sectors have worked hard over recent years to become more productive through aggressive down-sizing, innovative leveraging of assets and ventures into new businesses that broaden their geographic reach or compliment their

core business. Important as these moves are, business history cautions us that the most successful companies in environments of turbulent change are young, dynamic organizations that operate more on common sense than on esoteric strategic and marketing plans created by layers of experienced people in tradition-bound companies.

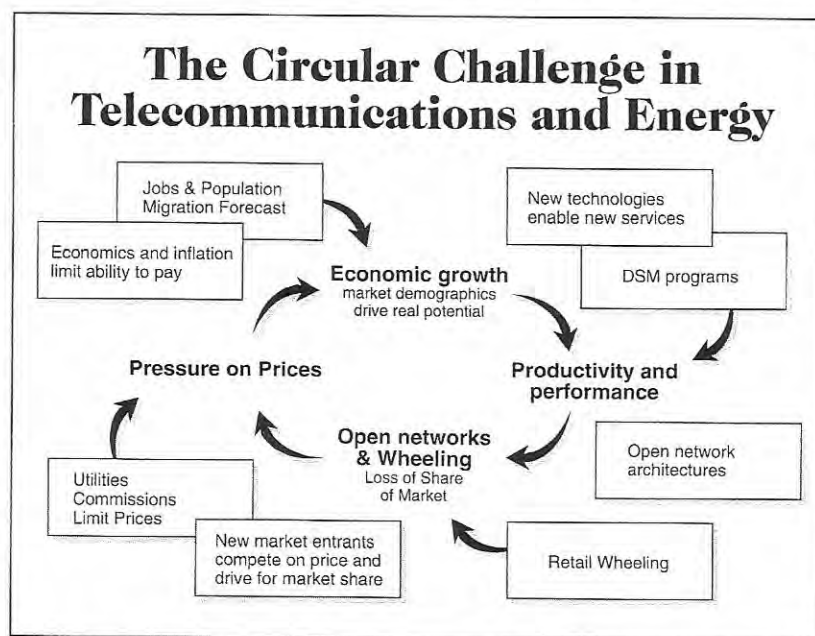
Recently we have observed a new force of change emerging in the competitive marketplace for utility services. We see it coming from small municipal utilities, such as in Glasgow, Ky., Gundy, Iowa, and Shewsbury, Mass., struggling to reposition themselves as customer

service companies. We hear murmurs of it during private discussions with larger corporations readying to do battle against entrenched competition. This new force is the concept of bundling a comprehensive set of utility services—not just within one service area, like various telephony services, but across the board—into a unified

billing package offered by a single point of customer contact. Spanning traditional commodity services—electric, cable, telephone, water and gas—it has broadened to include online services, data transmission, finance and video, creating a new market alternative for the customer which we call the Integrated Utility of the Future (IUF). Offering significant opportuni-

ties for economies in the distribution and delivery of services to the sponsoring utilities, it offers the customer more than just one-stop shopping. It creates a bond built on individualized communication of an individual's needs, or "customerized" products and services. It says, "we know you, we remember you and we can give you exactly what you want."

This integrated utility is using technology and deregulation to sell a single customer as many products as possible in order to capture as many satisfied, loyal customers as possible. *Instead of market share, the integrated utility's revenue goal is share of the customer.*



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& R.W. Schutheis

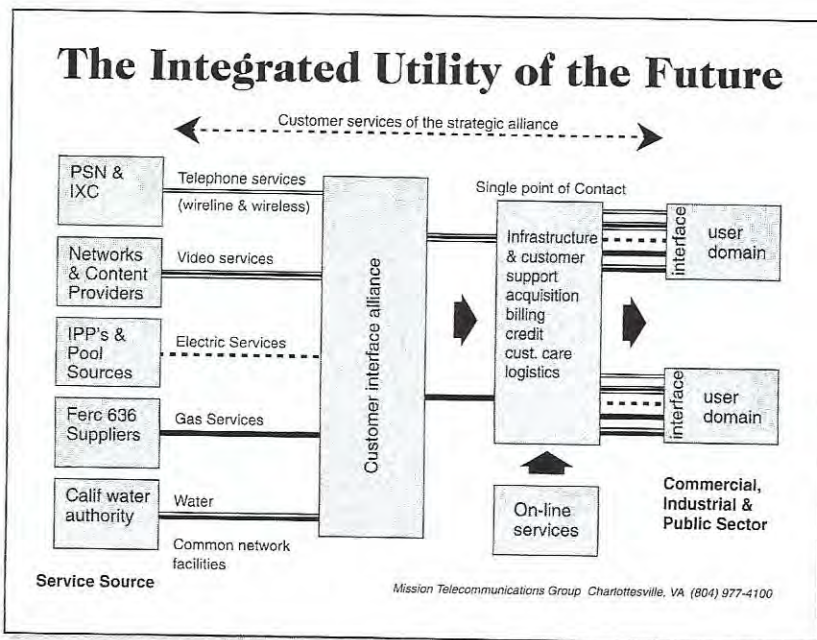
The predecessor for this service structure can be found in Mohave County, Ariz. There, stretching across a service area of 8,500 square miles and 79,000 customers, Citizen's Utilities Rural Company provides a package of services that includes water, power, telephone, gas, waste disposal, Internet access and cable television. The separate service companies, all owned by Citizen's (some dating back to 1939), first came together physically—co-

locating business offices to make service more convenient for customers. Then, at customer urging, Citizen's combined three discreet service paths into a single "super" customer representative over all products. The results were staggering. "We now have a

much better understanding of our customer and what services our customer wants to buy," explains Assistant Vice President Bill Kirby.

Utilities participating in an IUF benefit through lower costs and increased productivity via common resources and shared distribution assets, as well as common customer care, credit management, billing, collection and support systems. IUFs can create bundles of service with broad scope and content and offer a different set of commodity services specifically packaged to the customer's requirements and lifestyle. The

broader the scope of products included in the configuration of services offered to the customer, the higher the resulting revenue per month. The tighter the bonding with the customer's lifestyle patterns, the more predictable becomes the utility's customer retention rate and revenue stream.



Integrated utilities have enormous potential. However, critical strategic issues and challenges must be considered by those seeking to create one.

- As the services of the IUF grow to include a wide range of products, opportunities to create differentiated packages of bundled services offer unlimited sets of combinations. Where will we find

the optimum set of product/service offerings to provide maximum value to the customer while maintaining economic balance with the costs of program creation and system operation?

- Emerging technologies drive opportunities for new products, creating the promise of increasing sales. Imbedded in the creation of new services such as the ubiquitous wireless connection, widespread Internet usage and interactive services is the question of the customer's willingness and ability to pay for the expanded infrastructure required for their delivery. How far will

the marketplace move in its *willingness to pay* and where will the boundaries of *ability to pay* affect market acceptance for new product offerings and services?

- The IUF requires new functions and additional complexities in network engineering and support, order entry, billing systems, customer care systems and distribution channels. What is required of the *current service platforms* and what *new platforms* must be created to meet market expectations?

- In every domain, the IUF presents new dimensions in content, scope and complexity. Management must be given meaningful information to guide the effectiveness of the new organizational structure. How do we establish *performance benchmarks and standards* in marketing, billing systems, customer service and network management?

- Again, IUFs can add value by bundling customerized sets of utility offerings. But as the offering becomes more complex, the task of *selling to a new customer and dislodging an installed customer* becomes more difficult. How do we meet the challenges of affordable customer acquisition and effective customer retention?

- The IUF requires a redeployment of investment and organizational resources to respond to radically different demands in scope, content and intensity of operation. In what ways may we best allocate *finite resources in management talent, investment capital and infrastructure*, and how may these initiatives be extended in capabilities through acquisitions, alliances and the creation of joint ventures?

- The movement from a monopolized or oligopolized discrete commodity environment to a competitive service arena requires rapid intuitive decisions and reactions to competitive initiatives and to changes in customers' needs and wants. How do we transform traditional *decision cycles to respond to the new urgencies of markets* driven by competitive actions and reactions?

Issues such as the use of a rate base asset by an unregulated business or how an IUF fits into the architecture of the new open network will wait for now.

There's a tiny episode from the Civil War that gives us some practical guidance in this environment. Gen. George B. McClellan amassed the giant Union Army but was reluctant to use it. It was as if, having built the perfect fighting force, he wouldn't use it until he found the perfect war. The general's cautious nature was revealed one day when he and some of his troops were marching across the countryside, only to be stopped by a river.

McClellan called together some of his advisors to discuss the wisdom of attempting to cross it, arguing about its depth. That's when an impetuous young officer galloped his horse into the water, turned around midstream and called back, "This is how deep the river is, General."

McClellan's lack of initiative soon led to his replacement by Ulysses S. Grant, who went on to greatness and victory. Perhaps McClellan would make a good head of planning, while the young officer is made of the stuff of

entrepreneurs. Indeed, add the poignant detail that the dashing young horseman was the reckless, ill-fated George Armstrong Custer and our lesson is clear: beware of impetuous action without planning. Yet, keep in mind the most successful companies are the creative, prepared imitators—the ones that reorganize an industry, not just deliver an innovative product.

As with the case of these military leaders, the utility of today must balance aggressive actions with prudence. The integrated utility deserves attention on its merits and role among the new strategic options in the telecommunications industry. MCI is dabbling with its single-bill service for businesses in a limited number of markets, combining local, long distance and international calling with Internet, cellular and paging. Ameritech aims similarly with its GlobalDesk and integrated service center. Success will go to the Grants, the McClellans will disappear and worse fates will be visited on those who move forward with ill-planned precipitous actions like Custer.

So what do we watch as we ready for the future?

Municipally owned utilities have generally been free of regulatory restrictions against diversification and some have developed a unique view of their societal role. Moreover, these utilities are usually small, overshadowed by private power suppliers and are eager to both expand and provide fresh evidence of the benefits of citizen-owned utilities. It is only time before one of them sells off its generating assets, finds a telephony partner and takes advantage of its branding and customer relationships—and pours its new money into owning the customer. These companies are out there today. Talk with Los Angeles Water and Power, Key West, Fla., Cedar Falls, Iowa and a whole lot more. X

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