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Editor
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frontier

Frontier Corp.

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Public Company
Incorporated: 1899 as Home Telephone Co. of Rochester
Sales: $2.14 billion (1995)
Employees: 7,837
Stock Exchanges: New York Boston Chicago
SICs: 4812 Radiotelephone Communications; 4813 Telephone Communications, Except Radiotelephone

Confined to upstate New York for most of the century, Rochester Telephone became Frontier Corp. in 1995 and immediately began to transform itself from a provider of telephone service in specific parts of the United States to a nationwide provider of integrated communications services. By the end of the year Frontier, the 12th largest local-exchange service provider in the United States, was also the fifth largest U.S. long-distance telephone carrier. The company was providing local telephone services in 13 states and other telecommunication services, including cellular systems and voice, video, and data communications, to a much wider market. It also was selling and installing telecommunications systems and equipment. Offering itself as a one-stop telecommunications provider, Frontier had a customer base of 2.1 million and sales locations in 149 cities in the United States, Canada, and Great Britain in the mid-1990s. Its slogan was "Everything, Everywhere, for Everybody."

Rochester Telephone to Midcentury

The city of Rochester, New York, first received telephone service in 1879. Although subscribers were unhappy with the rates, the local affiliate of the Bell System could not be challenged until Alexander Graham Bell's first patent expired in 1893. In January 1899 a group of Rochester business leaders incorporated the Home Telephone Co. of Rochester, which was renamed the Rochester Telephone Co. later in the year. It soon spread throughout Monroe County and neighboring counties by acquisition of other independent companies, but its subscribers also had to take Bell service to be linked to the many areas served only by Bell companies. Consequently, although in 1907 Rochester Telephone served almost 10,000 subscribers, New York Telephone Co.—the Bell company—had 14,000, despite its higher rates. Rochester Telephone, which soon raised its own rates, had net earnings of $172,417 in 1912 and $177,818 in 1920, when its assets came to $3.1 million.

The two rival telephone companies merged in 1921, forming an independent (non-Bell) company named the Rochester Telephone Corp., with local men in charge. Long-suffering customers did not celebrate the greater convenience for long because the new company introduced meters on all business phones in place of flat rates. Nevertheless, all benefited from a capital-spending program, much of it to replace open wire with underground and aerial cable. The company's 100,000th telephone was installed in 1929. It was serving 40 incorporated villages and cities in a six-county area of 2,200 square miles in western and central New York, with a population of about 500,000.

The Great Depression that followed the Wall Street crash of 1929 reached its nadir in 1932, when the number of Rochester Telephone phones in service dropped by 11,051 and the company's net income fell to $322,726, compared to $883,407 in 1929, a peak not topped until 1950. The 1930 company payroll of $2.7 million was not equaled again until 1941. In 1935 the company announced that, with some exceptions, in order to spread jobs over a greater number of families, it would no longer employ married women. Dividends, however, continued to be paid out regularly through the Depression. By 1940 earnings had almost recovered to the 1930 level, and total assets came to $23.5 million.

World War II brought a near-halt to Rochester Telephone's capital spending. In 1948 the city received its first, long-awaited dial system, although the company's costly conversion from manual switching was not completed until 1966. In 1950 Rochester Telephone earned $1.05 million on operating revenues of $12.2 million and had 184,322 telephones in service. With the

Company Perspectives:

We commit ourselves to the following values that must guide our performance each and every day. We listen and respond to customers' expectations at all times, determined to be their first choice. We conduct our business guided by the highest standards of ethics. We build a diverse team of employees, hiring and providing advancement based on individual ability and job requirements. We take every opportunity to learn. We communicate with our employees and the public in an effective, candid and timely way. We provide our owners with excellent returns.

opening of new rural lines and the extension of service to new subdivisions, the number of subscribers almost doubled between 1945 and 1955. Rochester Telephone, which first offered common stock to the public in 1944, issued five more common-stock and three preferred-stock offerings in the 1950s in order to raise money for new construction. In 1959 it became the only independent, unaffiliated telephone company listed on the New York Stock Exchange.

Sizzling Sixties, Stagnant Seventies

In 1960 Rochester Telephone enjoyed its best earnings yet, with net income of more than $3 million on revenues of nearly $27.8 million. Total assets were $105.8 million. In 1961 the ratio of telephones in service to the number of employees—the mark of efficiency in the telephone industry—increased to 121.2. The following year the number of telephones in service increased by a record 16,733 to 332,077. Another record increase of 17,167 was attained in 1963, and earnings reached new levels in both years. The 400,000th telephone in service was installed in 1966. Two years later the company reached new highs in revenues, earnings, and telephones added.

Beginning in 1969, Rochester Telephone took responsibility for handling all long-distance telephone calls originating in its territory, including long-haul toll traffic that had historically been in the hands of New York Telephone Co. Its customers were then able to dial all their long-distance calls, and over the company's own equipment. Speaking to securities analysts in 1968, Rochester Telephone's president declared, "We are the only independent telephone company operating in a city of this size" and predicted that the population of the Rochester metropolitan area would pass a million by 1980.

Rochester Telephone installed its 500,000th telephone in service in 1970. Its operating revenues for the year totaled $76.3 million, and its net income was $11.6 million, although there had not been a general rate increase since 1958. Dividends had been increased in every year since 1960, and the company had been able to raise the money it needed for expansion chiefly by internal cash generation. As early as 1971 Rochester Telephone became the first local carrier to let customers hook up their own terminal equipment and, in 1977, it was among the first companies to begin selling, rather than renting, telephones to customers. In 1974 Rochester Telephone acquired the Sylvan Lake Telephone Co., Inc. as a subsidiary, extending its reach to a 275-square-mile area of eastern New York. Two years later it expanded into the Catskills, acquiring Highland Telephone Co., which was serving a 335-square-mile area in Orange and Ulster counties.

During a six-and-a-half-month strike in 1974–75 Rochester Telephone put 600 management employees to work doing the jobs of the 1,200 workers who had walked out. This experience convinced top executives that they could reduce the work force, which fell from 3,342 in 1975 to 2,858 in 1980. Rochester Telephone created a subsidiary called Rotelcom Inc. in 1978, with divisions for marketing telecommunications systems, distributing equipment and supplies, refurbishing telephone sets for resales, and providing consulting services for telephone companies and commercial organizations. In 1980 the company created a new subsidiary, Rotelcom Data Inc., to sell computer services and hardware to businesses. The Rotelcom subsidiaries, unlike the parent company, were free from rate regulation by the state Public Service Commission.

New Markets in the 1980s

By 1980 it was clear that the Rochester area, like New York generally, was falling behind the rest of the nation in economic growth. Instead of reaching the million-mark in population, the metropolitan area only had about 840,000 people. Rochester Telephone, which was serving 621,949 telephones at the end of the year and had 4.4 million miles of wire, reported record operating revenues of $181.8 million and record net income of $29.6 million, but it was looking for ways of expanding outside its operating area. The company acknowledged that, despite an outstanding record in profit margin, its average annual revenue growth of 8.6 percent during 1976–80 compared poorly to the average annual growth in the industry of 12.2 percent.

Rotelcom was providing one important avenue of growth. By the end of 1981 it had customers in 24 states, plus Bermuda, and accounted for 15 percent of the parent company's total revenues. The breakup of the AT&T Bell System ordered in 1982 offered new opportunities for expansion. In that year the company created RCI Corp. as an intercity carrier and began work on a $80 million fiber-optic-based network for RCI, which concentrated on selling private lines to large companies. Rochester Telephone also stepped up efforts to acquire small, rural independent telephone operators, many of them highly profitable once the parent company centralized their operations. By early 1991 it owned 33 telephone operating subsidiaries providing telephone services to customers in 14 states. Rochester Telephone had total revenues and sales of $600 million in 1990, with consolidated net income of $49.7 million. During the 1990–1994 period, Rochester Telephone was among the top ten public telecommunications companies by return on equity and profit per employee.

A Company Transformed in 1995

In 1993 Rochester Telephone made a bold proposal: it offered to become the nation's first local telephone company to let regulators open up to competition its exclusive franchise. This initiative was realized at the beginning of 1995, when Rochester became the first U.S. city since 1920 to allow residents a choice of local carriers. Time Warner Inc., with some 200,000 Rochester-area cable customers, vowed to compete for their telephone business as well. AT&T Corp. also jumped in, buying access to local lines at wholesale prices and reselling local service under its own name. Nevertheless, by April 1996 Time Warner and AT&T held only three percent of the Rochester market, and AT&T stopped marketing its local service.

In return for allowing rivals to poach on its preserve, Rochester Telephone won permission from state regulators to split into separate companies: a regulated wholesaler of telephone services named Rochester Telephone Corp. and an unregulated retailer named Frontier Communications of Rochester. This came into effect in January 1995, when a parent holding company named Frontier Corp. was concurrently created. The state Public Service Commission also agreed to free Rochester Telephone from a regulation limiting it to an annual return on equity of about 11 percent, in return for which the company agreed to a ten percent rate cut, followed by a seven-year rate freeze.

In August 1995 Frontier Corp. merged with ALC Communications Corp. in a transaction valued at $3.8 billion in stock. Along with ALC, Frontier gained Confer Tech International, the world's largest dedicated multimedia teleconferencing company. Later in the year Frontier acquired LINK-VTC, a videoconferencing-services company. A month earlier, Frontier had purchased Schneider Communications Inc., a long-distance voice and data carrier, and its 81 percent interest in LinkUSA Corp., a long-distance services provider, for $127 million. Other 1995 acquisitions were WCT Communications, a West Coast long-distance company; Enhanced TeleManagement, Inc., offering integrated telecommunications services in six states; American Sharecom, Inc., a Minneapolis-based long-distance company; and Minnesota Southern Cellular Telephone Co. Frontier also established its first international subsidiary for integrated services, London-based FronTel Communications Ltd.

In the mid-1990s Frontier was concentrating on "bundling," that is, offering one-stop shopping to customers that included local service, long distance, cellular phones, paging, videoconferencing, Internet access, and possibly cable television, all in one package, on one monthly bill. Frontier was convinced bundling would make unattractive to customers switching to suppliers of individual products offering cheaper prices. Frontier already held 25 percent of the long-distance traffic in Rochester and, through a joint venture with Bell Atlantic Nynex Mobile, half of its cellular market. It was also the largest local Internet provider, with 2,000 customers, and was set to fill orders for videoconferencing. Frontier reported that it had already made bundling a reality in Chicago, Cleveland, Columbus, Los Angeles, Milwaukee, Minneapolis, Portland (Oregon), Sacramento, San Francisco, Seattle, Syracuse, Toledo, and London, as well as Rochester.

At the end of 1995 Frontier, through 34 local telephone companies, served 950,875 access lines in 13 states. Long-distance products and services were provided to commercial and residential customers throughout the United States and in Great Britain, generally under the Frontier name. The company was managing a cellular network providing service in upstate New York and managing cellular systems in Alabama and Minnesota. It also had interests in wireless properties in five states. Long-distance communications services provided 69 percent of Frontier's 1995 revenues, while local communications services accounted for 29 percent, wireless communications services for 0.6 percent, and other services for the remaining 1.4 percent.

Frontier had revenues of $2.14 billion in 1995, up from $1.67 billion in 1994 and $978.8 million in 1990. Its net income fell from $180.1 million in 1994 to $22.1 million in 1995, principally because of a $121.2-million charge for extraordinary items, of which $78.8 million was related to acquisitions. The dividend on common stock was increased in 1995 for the 36th consecutive year.

Principal Subsidiaries

ALC Communications Corp.; FronTel Communications Ltd.; Frontier Cellular Holding Inc.; Frontier Communications of Rochester; Frontier Network Systems; Telco Inc.; Frontier Telecommunications Inc.; Rochester Telephone Corp.; RTC Main Street, Inc.

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—Robert Halasz