

The Phone Co-op Limited

Making Your Voice Count

The Phone Co-op's Story

International Co-operative Alliance

General Assembly Business Forum

Co-operative Innovation – Sector Perspective

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The Phone Co-op (UK)

Can a co-operative succeed in Telecoms?

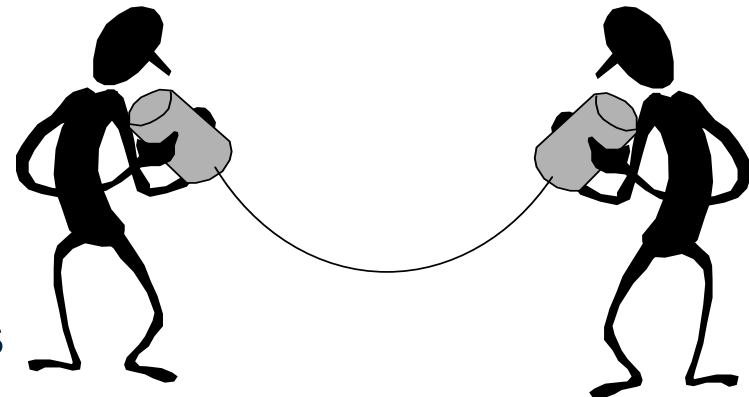
- This is the story of The Phone Co-op, one of the UK's fastest-growing and most successful co-operatives
- It's also about how a co-operative can succeed in an industry which:
 - Used to be a state-run monopoly
 - Is now well known for financial problems and doesn't always have a good reputation

What is The Phone Co-op?

- A telecommunications and internet service provider
- Entirely owned and controlled by its customers as a co-operative
- Uses traditional UK consumer co-op model
- 13,000 customers
- Profitable every year since it was founded

The Phone Co-op: A Co-operative Telecommunications and Internet Provider

- Operates on behalf of its customers to maximise buying power
- Returns its profits to members through a dividend based on purchases
- Aims to operate in an ethical way and to promote co-operative values
- Supports the development of other co-ops through a loan fund



Where did the idea come from?

- High phone charges working on international projects
- Looked for an alternative supplier
- Telephone calls bought and sold as a commodity
- Ideal opportunity for a consumer co-operative

Background: Regulatory and Legislative Framework

- Privatisation of British Telecom in 1984
- Liberalisation of the telecoms market following privatisation
- Encouragement of new entrants to the market
- Development of reseller market

Getting started

- 2 year embryonic phase
- Built up traffic in spare time acting as an agent with two telecoms carriers to prove concept
- It was hard work persuading a carrier to sell wholesale to us (nowadays they call us all the time trying to sell to us!)
- Started trading as a reseller in 1998

The first years

- Started in a spare bedroom
- By late 1999 there were 4 of us (it was getting crowded!)
- Moved into a rented office unit in March 2000
 - We now have 7 units in Oxfordshire and Manchester

Legal structure and share capital

- Initially a company limited by guarantee
 - Simple structure often used by new co-ops
- Converted to an Industrial and Provident Society in 1999
 - Well recognised structure for consumer co-ops
 - Enables us to raise share capital

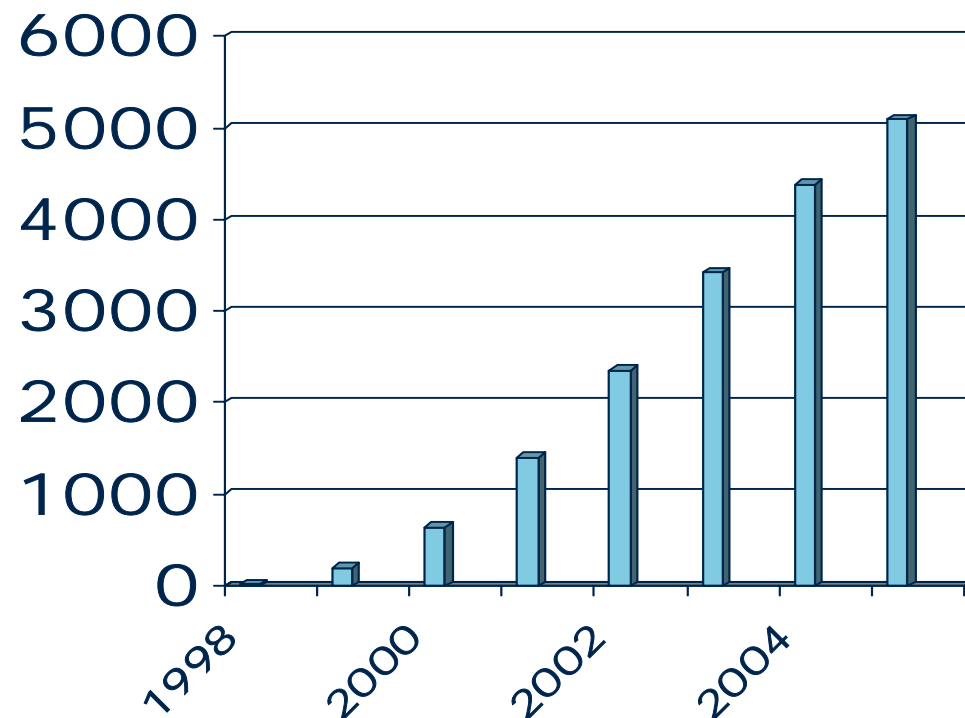
Members have invested!

- Members' share capital now over £1 million (EUR 1.46 million USD 1.85 million)
- Withdrawable share capital paying interest
- Dividends paid on what members spend
- Seen as an ethical investment
- Over 5,000 members

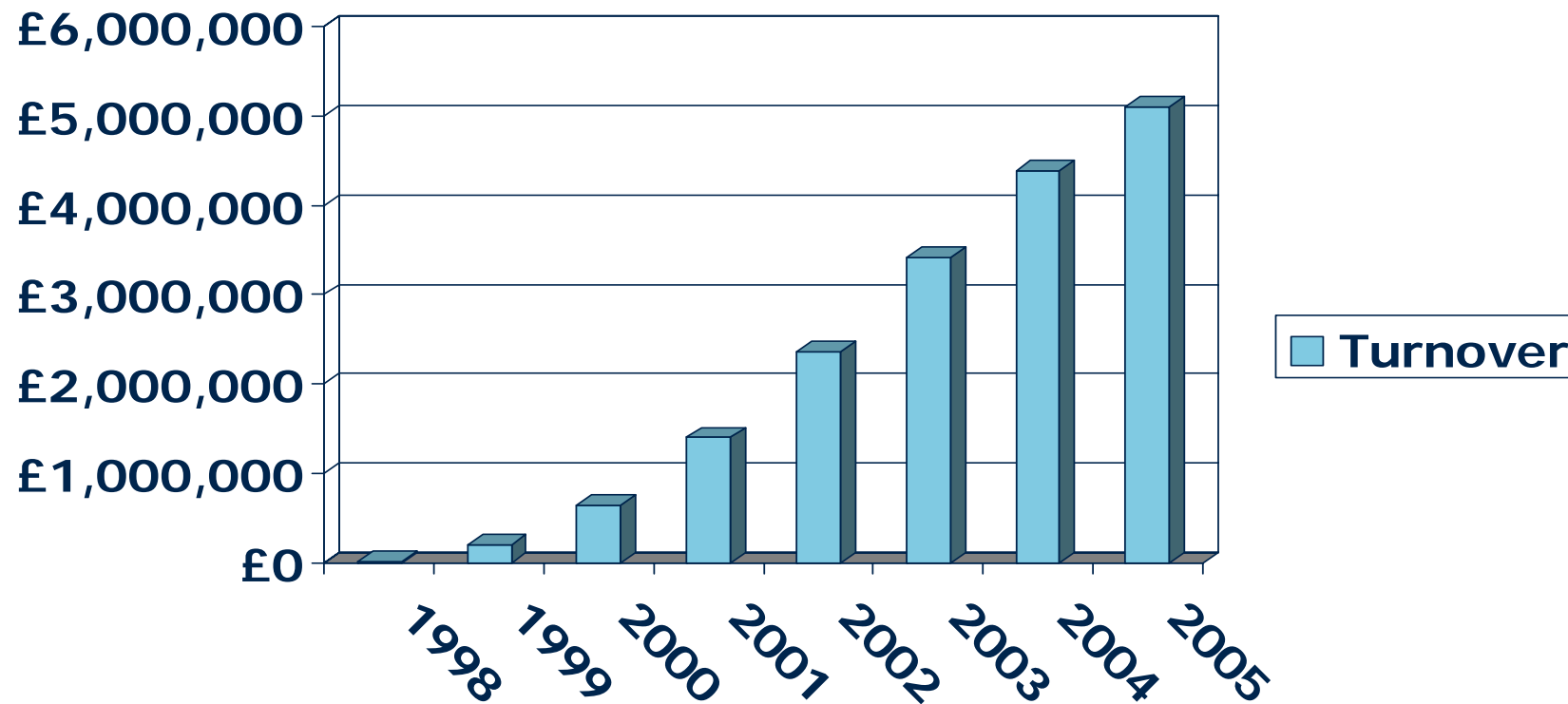
Result for 12 months to 31 August 2004

- Turnover: £4.38 million (EUR 6.4 million, USD 8.1 million)
- Profit: £191,000 (EUR 279,000, USD 353,000)

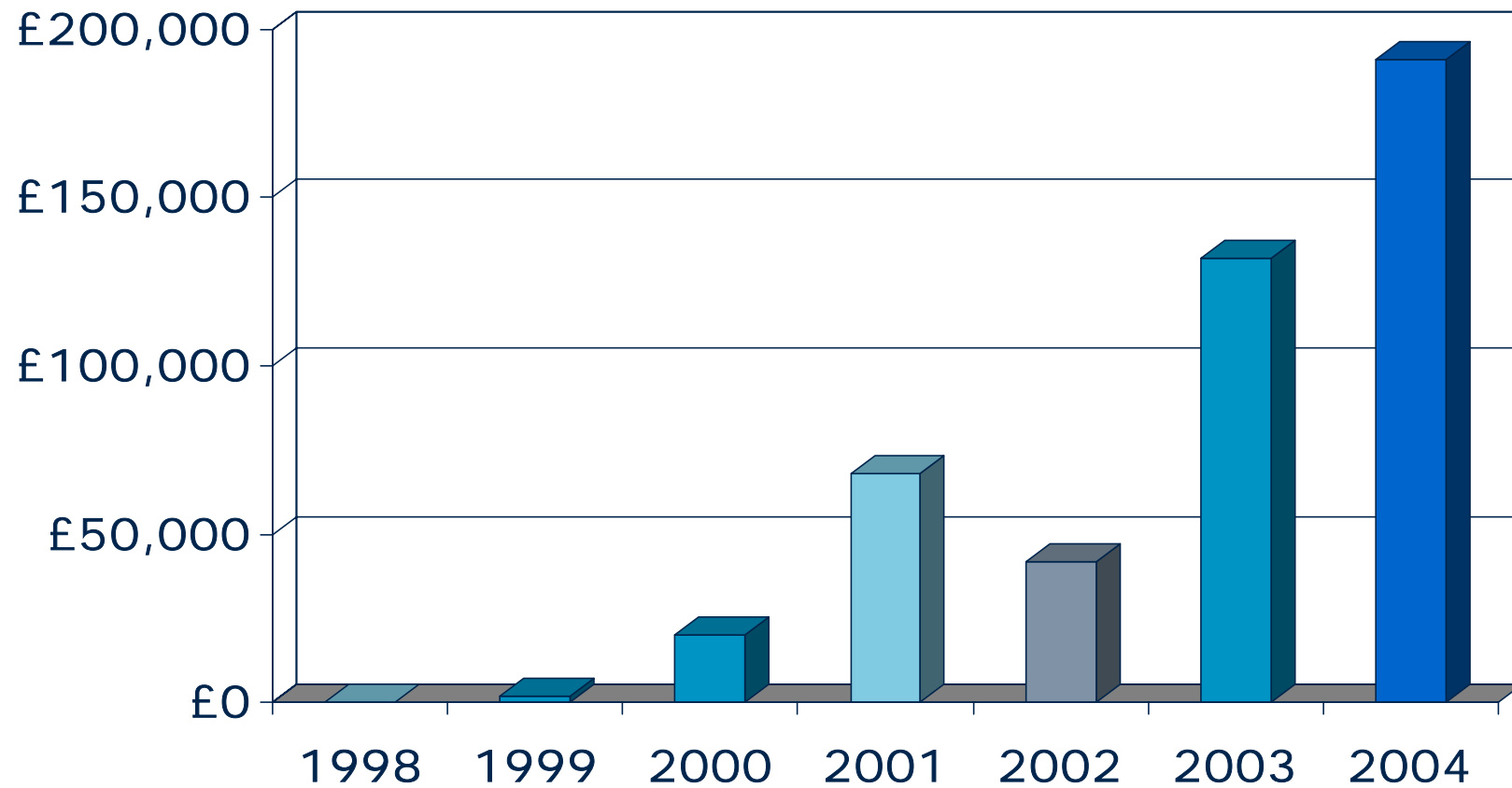
Turnover £000s



The Phone Co-op: Turnover growth



Profit before distributions



What we did with the profit

- Profit: £191,000
- Dividends to members: £21,000
- Co-operative loan fund: £21,000
- Share interest to members: £20,000
- Taxation: £22,000
- Allocation to reserves: £107,000

Co-operative and Social Economy Development Fund

- Current Board policy is to recommend same amount as dividend is allocated to this fund each year
- Total value now £53,000
- To provide loan finance for new and developing co-ops
- Working in partnership with Co-operative and Community Finance (Formerly ICOF)
- Managed by CCF as a separate fund

Financially strong

- No borrowings
- Cashflow very strong
- Profitable in each trading year
- Financed by members not by external investors or banks
- Compares favourably with our competitors
- We have had the highest return on capital employed of any consumer co-op in the UK for the past 2 years

Non-financial measures

- In 2003-4 we reported on:
 - Trade with other co-ops
 - 8.5% of sales
 - 9.4% of non personnel overhead purchases
 - Transport miles for business journeys
 - 72% rail/bus/tram
 - 21% car, taxi
 - 8% air

Some other things we do which aren't just about profit

- Offset all CO2 emissions from own and carrier-supplier activities through voluntary levy to Climate Care
- Employee stakeholding
 - Employee Council now created
- Ethical purchasing, e.g.
 - Bills (150,000 a year) printed on recycled paper from Paperback (worker co-op)
 - Fairtrade products in office

Moving into Internet

- Acquired Poptel's retail business in July 2003, with approx. 1,000 customers – has grown fast since and is now about 20% of the business
- Poptel had been a worker co-op but ceased to be in September 2002 after investor took control
- The Phone Co-op now has an Internet Department in Manchester with ten staff
- Full range of access and hosting services (for a while we managed the dotcoop servers).

A word on dotcoop

- We fully support the dotcoop domain
- It helps differentiate us in a highly competitive market
- The difference helps underline that people can trust The Phone Co-op
- Main domain: www.thephone.coop
- Also, www.phoncoop.coop

Other acquisitions

- Most of the growth has been organic
- Poptel business the largest acquisition
- Three other acquisitions:
 - First Call Direct (Feb 2001)
 - Part of Atlantic Telecoms (Oct 2001)
 - Part of remaining Poptel business (March 2005)
- We are actively looking at further acquisitions as part of our growth strategy

Involving members

- Board is elected by and from the members (1,281 people voted last year, a 30% turnout)
- Most board meetings held by telephone to make membership of the Board less onerous, and to reduce costs
- Telephone conference link at AGMs
- Customer newsletter
- Membership/Projects Manager appointed last year

Who are our customers?

- Several large regional consumer co-operatives, many worker and housing co-ops and credit unions
- Several well known charities
- Individuals who have joined through affinity schemes
- Other businesses
- Individuals attracted to the Phone Co-op's approach
- Wholesale: Community broadband networks

Where do our customers come from?

- Press coverage (Guardian, Observer, Express, Sunday Mail + many small titles)
- Word of mouth
- Our network of agents: organisations, federations (e.g. Co-operatives UK) and individuals
- Affinity schemes: E.g. Co-operative Group, Co-op Bank, many charities, 3 political parties

Some of the Phone Co-op's customers

- Amnesty International
- Unison (a major public sector trade union)
- Manchester and Salford City Councils
- Relate (a charity)
- Cancer Research Scotland and Northern Ireland
- Oxford, Swindon and Gloucester Co-op
- Leeds Co-operative Society

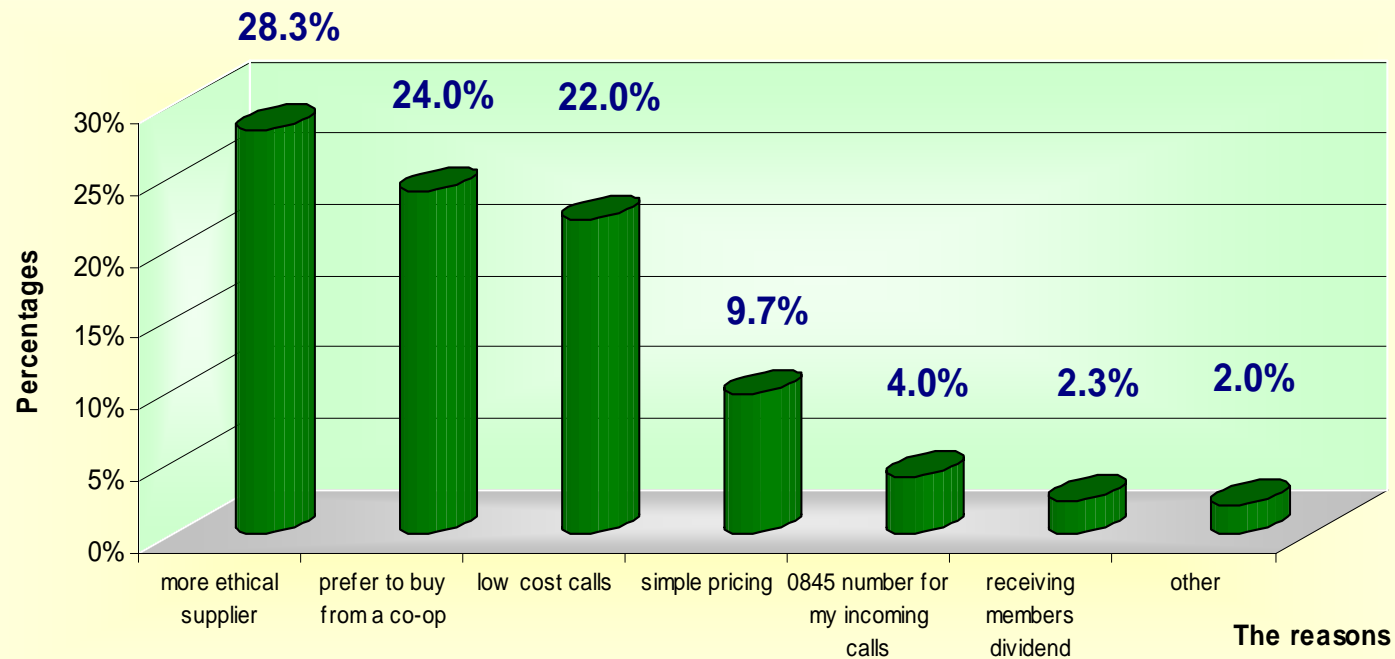
Why do customers join The Phone Co-op?

- They like the fact that it's a co-operative
- Ethical stance
- Not there to “rip them off”
- Like to support an alternative to capitalist businesses
- Good value
- Dividend
- Affinity schemes

Survey conducted this year

- 2000 non-business customers received survey forms with their bills
- 42% of them returned their forms
- This is a very high response-rate
- Results very interesting and encouraging for us
- Very high customer satisfaction rates
- One point in particular:

Reasons customers choose The Phone Co-op



Why do customers stay?

- Our customer loss rate or “churn rate” is low compared to most telecoms businesses
- Customers are owners and get treated as real people with needs not just a means to an end
- We attract customers who want to be with us

Some statistics

- 2.2 million calls in May 2005
- 13,000 billing customers
- 8 million outbound minutes sold in May 2005
- Average duration of calls: 3.7 minutes
- Average value of calls: 12p
- In August, 50 employees (35 permanent)
- Seen as key future employer in Chipping Norton where the largest employer just closed with the loss of 400 jobs

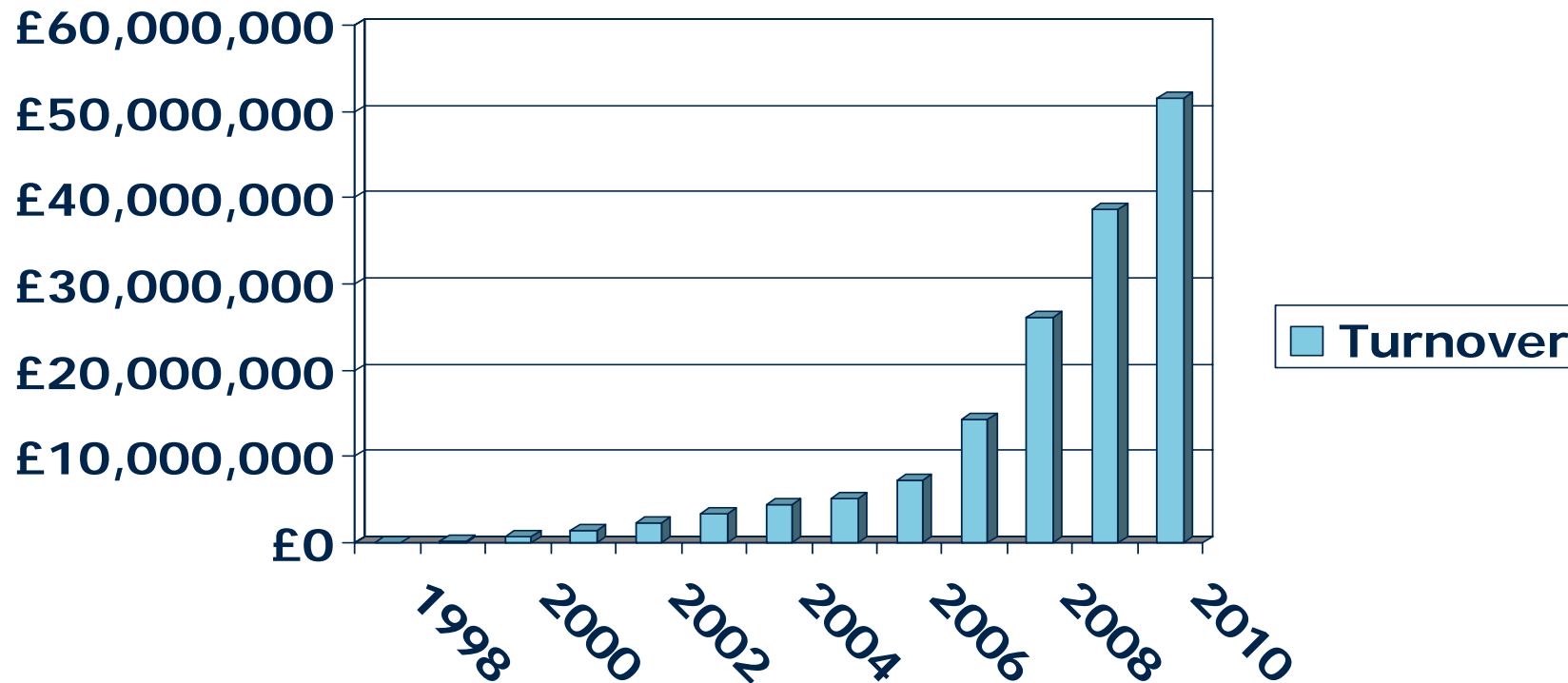
Working with Community Broadband Networks

- Keen to support co-operative innovation in our sector
- Founded The Community Broadband Network with a partner (RuralNet) in 2003
- Aim: to support local community broadband networks who use wireless and other technologies to bring broadband to rural and deprived communities
- Wholesale supplier to several networks
- Worked with local networks to launch a new VoIP service for businesses

Future growth plans

- The Phone Co-op's Board wants to see co-operation make a real impact in telecommunications, and perhaps more widely
- The Board has approved a growth plan which aims to achieve growth to nearly 10 times our current size in 5 years.

Projected Turnover growth



What will the growth areas be?

- The telecoms industry is changing fast. Some products are falling rapidly in price, and we need to add other products which are not exposed to this risk
- We plan to grow customer numbers to over 100,000
- We plan to sell our customers more things than we do now

Voice minutes – Prices are falling

- The price of almost all types of calls has been falling for some time (we pay wholesale much less than half what we paid for a national call 6 years ago)
- The advent of Voice over IP – telephone calls over the internet – will accelerate this
- We believe there will still be a market for fixed line voice minutes for some years to come but that the prices will continue to fall

Line rental

- It is now possible for alternative telecoms providers to resell BT line rental
- We launched this service in April and we are adding rentals of lines at around 700 per month
- This is currently our biggest growth area
- But margins are low and we have to handle fault reports

Broadband (ADSL)

- Another key growth area for us at the moment
- We added 180 connections in July and nearly as many in August
- However, prices have been falling fast (even faster than voice minutes)
- In the long-term, ADSL is under threat from new technologies such as WiMAX

Mobile

- Regulated differently in the UK but we want to provide it
- We are trying to identify the right supplier for us
- We may offer “recycled” handsets as part of our environmental policy. This is also cheaper and means we can make an attractive offer to customers

Electricity

- Over 70% of our customers say they are interested in buying electricity from a renewable source (e.g. wind power) from The Phone Co-op
- We are working with a potential supplier to see whether they can operate this service for us on our behalf

Gas

- Over 50% of customers say they are interested in buying gas from The Phone Co-op
- We are talking to potential suppliers who could do this on our behalf

International?

- The telecoms industry is global so perhaps we should not be limited by national boundaries either
- There are telecoms co-ops in other parts of the world
- There is talk within some of the sectoral organisations in the ICA about global purchasing and some initiatives have already been taken
- Perhaps it is time for co-operatives involved in

A new specialised organisation in the ICA?

- Perhaps it is time for co-ops involved in the telecoms and internet industries around the world to form their own grouping within the ICA?
- Possible advantages:
 - Joint purchasing from global carriers
 - Peering arrangements between Internet Service Providers and VoIP
 - 24 hour maintenance cover
 - Sharing of know-how etc.

Conclusion

- A new co-operative can be very successful in telecommunications (where many of our non co-op competitors have failed)
- Co-operatives can succeed in a mass-market industry which was formerly a state monopoly
- The co-operative model has in-built advantages and brings extra engagement from its members.