

## Hawaiian Telcom steps up its plans

By Sean Hao  
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Hawaiian Telcom turns two years old this month, marking the end of a painful phase for the phone company and its customers.

The company was created following the \$1.6 billion sale of Verizon Hawaii to The Carlyle Group in May 2005 in a deal that was supposed to improve service, produce new products and bring new jobs to the state. However, the transition from Verizon to Hawaiian Telcom has been fraught with difficulty with thousands of customers receiving inaccurate bills and long waits for customer service.

Hawaiian Telcom has yet to resolve billing and other problems, but customer service levels are returning to normal and most systems issues should be fixed by September, according to the company. That's allowing Hawaiian Telcom to finally focus on delivering new products such as faster Internet service and TV programming.

"We're turning the corner," said Hawaiian Telcom Chief Executive Mike Ruley. "We're investing literally hundreds of millions — not millions — but hundreds of millions in technologies ... to generate new levels of customer service and a new level of customer experience."

Hawaiian Telcom may be running out of time to get things right. Customer-service problems have hurt its reputation — something the company can ill afford in an increasingly competitive marketplace. Competition from wireless and cable companies coupled with customer service woes resulted in a 6.6 percent loss of customer access lines last year at Hawaiian Telcom. The number of residential access lines fell 9.3 percent, or 37,696 lines, last year, which was partially offset by an increase in wireless phone and high-speed Internet customers.

Hawaiian Telcom also is in the midst of a state Public Utilities Commission investigation into the company's deteriorated level of customer service. In addition to costing the company customers, the slow response times could result in penalties or fines levied by state regulators.

Leslie Walker, a Lahaina hotel worker, was unwilling to wait for Hawaiian Telcom to get things right. Walker said she left Hawaiian Telcom for a wireless phone company about six months ago, but still receives a \$500 bill from the company every month. Walker said she has disputed the bill for nearly a year.

"I'm no longer a Hawaiian Telcom customer, and I never will be again," she said.

Hawaiian Telcom said it is working to resolve billing problems. As recently as March, Hawaiian Telcom acknowledged that at least 100 low-income Hawaiian Telcom customers have received inaccurate bills that were higher than normal. The company blamed a "system error" for the problem, which resulted in a misapplication of Lifeline phone bill credits.

"We're cleaning up the problems out there that have existed and still exist to some extent," Ruley said. "There are still problems. We're going to clean them up one at a time until we're done. Until we have them all cleaned up, we're going to keep at it."

## 'FINALLY MADE IT RIGHT'

Hawaiian Telcom customers with billing issues may need to exercise patience. Honolulu retiree and Hawaiian Telcom customer Barbara Hanson said it took more than a year to resolve a \$250 billing inaccuracy.

"It finally got fixed up, but it wasn't over for more than a year," she said. "I thought it was never going to end, but they finally made it right."

Hawaiian Telcom's billing problems were the result of a transition from "back office" systems from prior owner Verizon Communications Inc. to Hawaiian Telcom in April 2006. Hawaiian Telcom bought the company in May 2005 with the pledge of bringing back to Hawai'i the finance, human resources, information technology, marketing and executive staff jobs the previous owner had located on the Mainland. The company has since added about 200 jobs.

However the transition to a new Hawai'i back office resulted in numerous unexpected problems. Although Hawaiian Telcom's phone network remained reliable, thousands of customers received inaccurate bills and customers had to endure long waits for customer service.

In February, Hawaiian Telcom announced that it hired Accenture Ltd. to complete the development and deployment of the phone company's customer service and business-support systems. At the same time, Hawaiian Telcom said it reached a mutual agreement to part ways with its original consultant, BearingPoint Inc. As part of the agreement, BearingPoint paid Hawaiian Telcom a \$90 million settlement, including \$52 million in cash.

Hawaiian Telcom is making better progress fixing ongoing systems issues since the change in consultants, Ruley said. Customer service has nearly returned to pre-transition levels, while repair call service has improved, Ruley said.

Hawaiian Telcom said other accomplishments during the past two years include:

- Increased capital spending to update and improve the company's network;
- Expanded availability of high-speed Internet on Kaua'i, the Big Island, O'ahu, Maui and Moloka'i;
- And the launch of a new wireless phone service.

In addition, Hawaiian Telcom has launched a bundle of local, unlimited long-distance, high-speed Internet and wireless service for less than \$100 a month, excluding taxes.

## FUTURE PLANS

Going forward, the company plans to offer faster Internet services, TV service and increased wireless services. A key strategy includes close integration of those services so that, for instance, customers can use a mobile phone to tell their TVs to record a show.

"We're working very hard on all of these things, and these are things we wanted to get out earlier but because of these issues with the systems we weren't able to," Ruley said. "I'm excited just to be able to think about these sorts of things more in my day than trying to figure out how to get a bill out the door."

A critical component of Hawaiian Telcom's plans is the launch of a new TV service using Internet technology. That will allow the company to offer wired and wireless phone services, high-speed Internet and video services on one bill. Bundling is a key part of Hawaiian Telcom and competitor Oceanic Time Warner Cable's strategies. The idea is to sell customers several services, making them less likely to switch to a competitor or "churn."

The lack of fully functional systems was one of several factors in the company's decision to delay the new TV service over phone lines that would compete with cable television. Hawaiian Telcom now expects to launch the television service in the first quarter of next year.

"If we don't offer a competing package with our video option, we're constantly in a defensive posture and we need to be in more of an offensive posture," Ruley said. "The beneficiary of that competition is the consumer because we'll have a bundle, (Oceanic) will have a bundle, (and) we'll have true competition for video services in Hawai'i, which will make the cable company responsible to the community on their pricing."

Given Hawaiian Telcom's recent woes, the company has a reduced margin for error when it launches TV services, Ruley said.

"We've got to get it right because the people of Hawai'i won't give us another pass," he said.

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## HAWAIIAN TELCOM COMPLAINTS

There were 149 informal written complaints filed against Hawaiian Telcom with the state Public Utilities Commission in 2006, vs. 31 complaints filed during 2005.

Month	No. of complaints	% of residential installation/billing calls answered in 20 seconds (goal 85 percent)
January 2006	1	87
February	0	77
March	2	68
April	5	20
May	9	8
June	14	10
July	20	11
August	14	26
September	26	27
October	24	47
November	20	55
December	14	70
January 2007	7	80
February	21	82
March	18	Not avail.
April*	8	Not avail.

\* Through April 25

Source: Hawaii Public Utilities Commission