

Alan F. Ciamporcero
Executive Director

Federal Regulatory Relations
1275 Pennsylvania Avenue, N.W. Suite 400
Washington, D.C. 20004
(202) 383-6416

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August 30, 1995

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EX PARTE

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 95-116 - In the Matter of Telephone Number Portability*

On August 28, 1995, Jerry Abercrombie and Kevin Moisan of Pacific Bell and I met with Matthew Harthun, Rose Crellin, Phil Cheilik and Deborah Harper of the Common Carrier Bureau to discuss the above docket, specifically the attached materials. Please associate these with the above-referenced proceeding.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



cc: Matthew Harthun
Rose Crellin
Phil Cheilik
Deborah Harper

Attachments

No. of Copies rec'd 001
List A B C D E

**Analysis of Potential Local Access Competition in the Pacific Bell
Residence & Business Markets**

Performed by
ConStat, Inc.

Presented by
Jerry Abercrombie
Pacific Bell

- ConStat is a full service marketing research organization
- Located in San Francisco, CA
- Performed research services for a wide variety of industries and public organizations
- ConStat utilizes leading edge approaches to address unique strategic issues
- ConStat has extensive experience and expertise in conducting research in the telecommunications and high technology market place
- Research project supervised by:
 - William D. Deaton, Ph.D.
 - Christine Schwinn

Clients include:

- AT&T
- Sprint Communications
- Intel
- Cellular One
- McCaw Cellular
- Pacific Bell
- US West

Purpose & Objectives of Research

- What factors are important in deciding to change local service providers?
- What was the value placed on the incumbent telephone number (main/other)?
- What incentives are important to customers to switch numbers and carriers?
- Can other technical solutions mitigate “barriers” short of number portability?
- What are the trade-offs and inter-relationships?

The market research was conducted in two phases

- **Qualitative phase in the form of focus groups**
 - Initial focus groups provided an arena to examine issues surrounding the study's objectives in depth
 - Opportunity to “flush out” the main issues related to switching a carrier; issues on telephone number change
 - Learn the terminology customers use to describe telecommunications services
- **Quantitative phase**
 - Survey conducted using telephone-mail methodology
 - Full Profile Conjoint analysis used to evaluate trade-off/relative influence of decision elements

ConStat recommended a quantitative approach that closely replicated the decision-making process

- Full profile conjoint analysis was used
 - Well known method of systematically varying decision-making elements
 - Technique presents the decision-making elements in numerous combinations, creating incentive/solution scenarios, and exposes each respondent to a number of these scenarios
 - Allows the decision influencer in different scenarios to be identified
- To further increase validity and reliability of data, ConStat administered the conjoint approach via a “defection analysis”
 - Based on fundamental decision-making theory that assumes that decisions about making changes from the status quo are easier for a decision-maker to visualize in their minds than decisions about a hypothetical or potential situation
 - The decision that is measured in the simulated (i.e., research) situation that uses this approach will more closely resemble the decision that would actually be made

Methodology - Quantitative Phase

Sampling Design

- Telephone-mail methodology was used
 - Potential respondents were first recruited by telephone
 - Mail questionnaire was sent to collect data for the conjoint analysis
- Participants recruited for this study were the *persons most responsible for decisions regarding local exchange telephone service* for their household/company's California locations
- Potential participants eliminated from recruitment if worked for telecommunications service provider, marketing research/consulting firms, or if used GTE exclusively for local telephone service
- All participants were randomly recruited from the purchased sample
- The recruit was conducted "blind"
 - without knowledge of the company sponsoring the survey

Research Approach - Overview

Business

- **Qualitative**
 - Focus Groups; two with each business size; one among those already using alternate local service providers = 7 total
 - Northern and Southern Calif.
- **Quantitative**
 - Universe & Sample stratified by business size to insure adequate representation
 - Sample purchased from Dun & Bradstreet within P*B prefixes
 - » Small (1-9 EMP..) **179**
 - » Medium (10-99) **170**
 - » Large (100+) **170**
 - Total = 519**

Residence

- **Qualitative**
 - Four focus groups; two with each income category (Low vs. High)
 - Northern and Southern Calif.
- **Quantitative**
 - RDD sample purchased from SSI within P*B prefixes
 - Random Sample
 - » High Income 397
 - » Low Income 50
 - Total = 447**
 - Recruited oversample of Low Income to allow for separate analysis (add'169)

Methodology - Quantitative Phase

Explanation of Local Access Competition



If you switched to a different local telephone company...

- The new company would...
 - **Provide your local and toll service**, including line charges and local, zone and toll call charges.
 - **Provide any other local or line services** that you are currently receiving from your local telephone company, such as Call Waiting or calling cards/*Custom Calling Features or Centrex*.
 - **Provide any new lines** you need or make any changes in your service.
 - **Handle any problems or repairs**, including wiring currently handled by your current local telephone company.
 - **Bill you directly.** *You would no longer receive a bill from your current local telephone company.*
- No additional equipment would be necessary.
- You would not incur any costs for switching your telephone service.
- If desired, your telephone would remain listed with the White Pages or Directory Assistance (411).
- *Yellow Pages advertising would continue to be provided by the company who provides it now (e.g., Pacific Bell Directory, Donnelley Yellow Pages...) This company would bill you directly.*
- Your long distance service would not be affected.

Methodology - Quantitative Phase

Elements of Trade-off Design (Residence)



- **Type of Company**
 - Current Long Distance Company
 - Other Telecommunications Company
 - Cable Television Company

- **Bundled Services**
 - Local and Toll Service Only
 - Local, Toll and Long Distance Service

- **Service Discount**
 - 0% off local telco costs
 - 5% off local telco costs
 - 15% off local telco costs
 - 25% off local telco costs

- **Impact on Telephone Number**
 - Number remains the same
 - Announcement *only* for 6 months
 - Announcement *only* for 1 year
 - Announcement *and* Transfer for 6 months
 - Announcement *and* Transfer for 1 year

Methodology - Quantitative Phase

Elements of Trade-off Design (Business)

-
- **Type of Company**
 - Current Long Distance Company
 - Other Telecommunications Company

 - **Bundled Services**
 - Local and Toll Service Only
 - Local, Toll and Long Distance Service

 - **Service Discount**
 - 0% off local telco costs
 - 5% off local telco costs
 - 15% off local telco costs
 - 25% off local telco costs

 - **Impact on Telephone Number**
 - Number remains the same
 - Announcement *only* for 1 year
 - Announcement *only* for 2 years
 - Announcement *and* Transfer for 1 year
 - Announcement *and* Transfer for 2 years

 - **Type of Line**
 - Main number
 - Other numbers
 - DID numbers

Methodology - Quantitative

Sample Conjoint Question (Residence)



- **Your current long distance company offers...**
- **Local, toll and long distance service for...**
- **25% off what you currently pay and...**
- **Your telephone number remains the same.**

HOW LIKELY WOULD YOU BE TO CONSIDER
SWITCHING TO THIS COMPANY?

Very Likely.....

Somewhat Likely.....

Not Very Likely.....

Not At All Likely.....

Methodology - Quantitative Phase

Sample Conjoint Question (Business)



- **Your current long distance company offers...**
- **Local, toll and long distance service for...**
- **25% less than your current local telephone company on any lines that you switch and...**
- **The telephone numbers remain the same on any lines that you switch.**

HOW WILLING WOULD YOU BE TO SWITCH ANY OF THESE LINES TO THIS COMPANY?

	VERY	SOMEWHAT	NOT VERY	NOT AT ALL	WHAT % WOULD YOU MOVE?
Main/published lines	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____ %
Other lines	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____ %
DID lines/numbers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____ %

Methodology - Quantitative Phase

Data Collection, Tabulation and Analysis



- All telephone interviewing, recruiting and questionnaire mail-out was done at ConStat's central interviewing center by interviewers and staff experienced in telecommunications research projects
- Recruitment of participants for the mail survey occurred from
 - October 24, 1994 - November 23, 1994 (Business)
 - November 26, 1994 - December 9, 1994 (Residence)
- 10% of all telephone interviews were monitored
- To insure that every respondent had an equal chance of being interviewed and recruited, up to and including four attempts were made to complete an interview before the listing was considered "unusable"
- Main questionnaires were "pretested" to ensure clarity and understanding
- All cooperating recruits were sent a survey packet containing a cover letter, main questionnaire, a SASE return envelope and a \$2 (Bus.) or \$5 (Res.) incentive to stimulate returns
- Completed questionnaires were returned to ConStat by December 19, 1994 (Bus.) and January 9, 1995 (Res.)

Results were discounted to more closely estimate actual customers' switching behavior

- To determine the percentage of customers that would switch, given a specific competitive scenario, on an inferential basis (derived from estimates in the conjoint), the following discount factors were assigned:

Response	Category	Likelihood to Switch
Very Likely	4	75%
Somewhat Likely	3	50%
Not Very Likely	2	25%
Not At All Likely	1	0%

Note: Conversion factors such as these are commonly used to account for some tendencies frequently found in market research studies that lead to an inflated estimation of demand. Some of these tendencies include overstatement by respondents (who are more likely to agree to switch during the survey process than in reality), inertia in actually switching services and lower levels of awareness of competitive offerings (since all respondents were educated about potential competition).

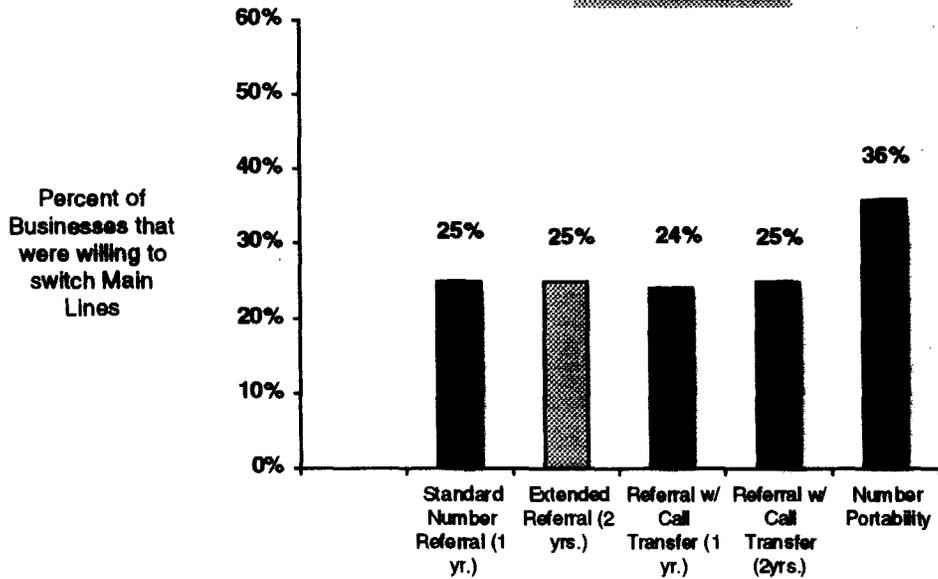
Research Caveats

- Trade-off analysis takes into account only those variables measured in the exercise
- External factors that could likely influence the decision to switch were not tested in this study
 - Awareness
 - Inertia
 - Advertising & related marketing efforts
- As with any study, additional forecasting and analysis is necessary to account for the impact of these variables

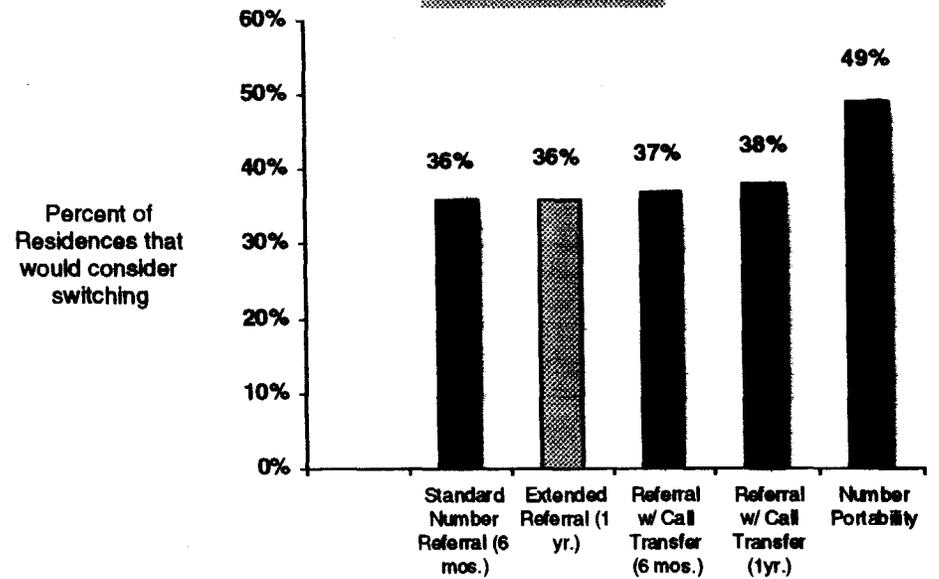
The various technological solutions using number referral to mitigate a number change have about the same impact on likelihood to switch local telephone providers

Incumbent Long Distance Company Offers Service for 15% Discount

Business

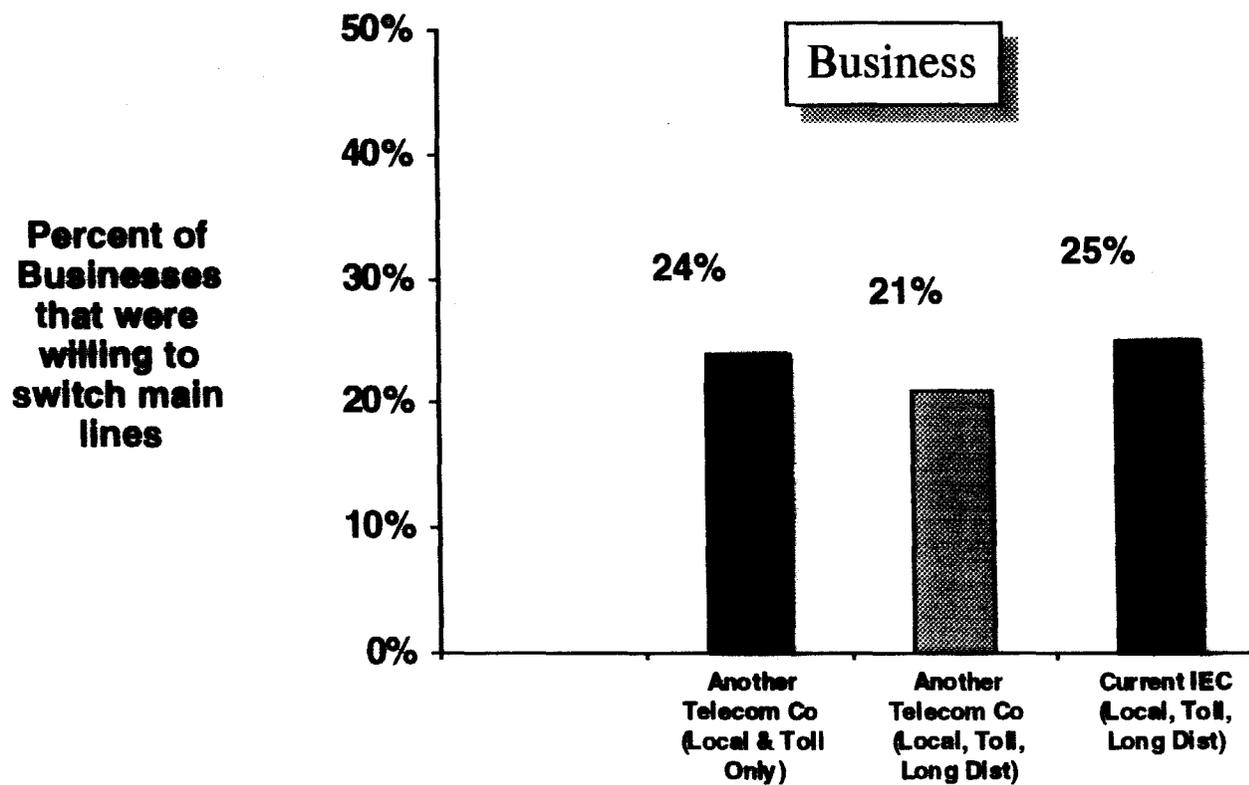


Residence



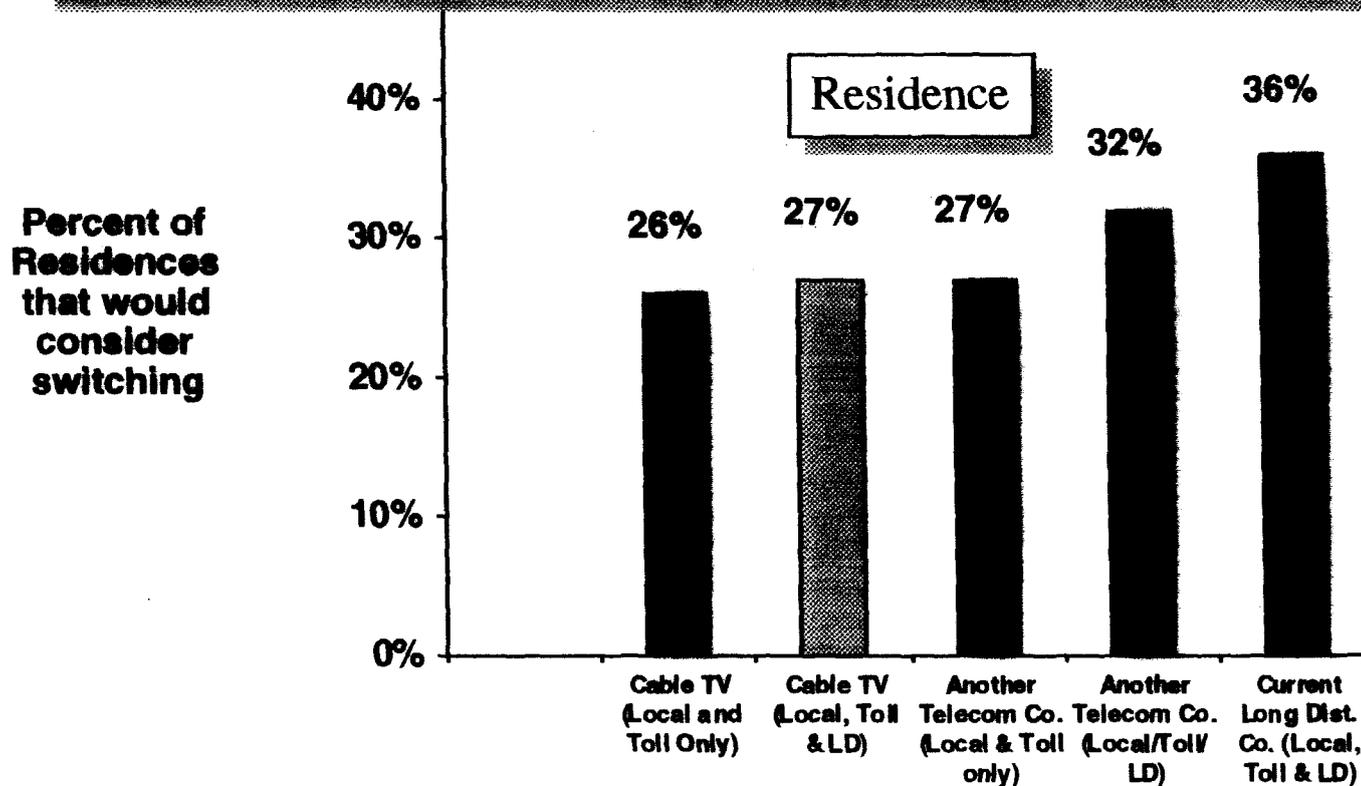
Impact of "Brand" and Service Bundling

Carrier offers 15% Discount and Announcement Only for 1 Year



Impact of "Brand" and Service Bundling

Carrier offers 15% Discount and Announcement Only for 6 Months



Lack of “service provider” number portability is not a “barrier” to competition

- CLECs appear to be able to capture between one tenth to one third of the business market without number portability, dependent upon
 - Discount
 - Brand
 - Bundling
- In the Residence market, CLECs will be able to capture between approximately one fifth to just under half of the residence market without number portability
- “Service provider” number portability only adds approximately *one-tenth* more customers in any given situation

Note: No distinction was made in the research about “interim” portability alternatives versus long term “true” number solutions, because this was not apparent to customers, based upon Focus Group input.

Relative Value of Number Portability (Business)

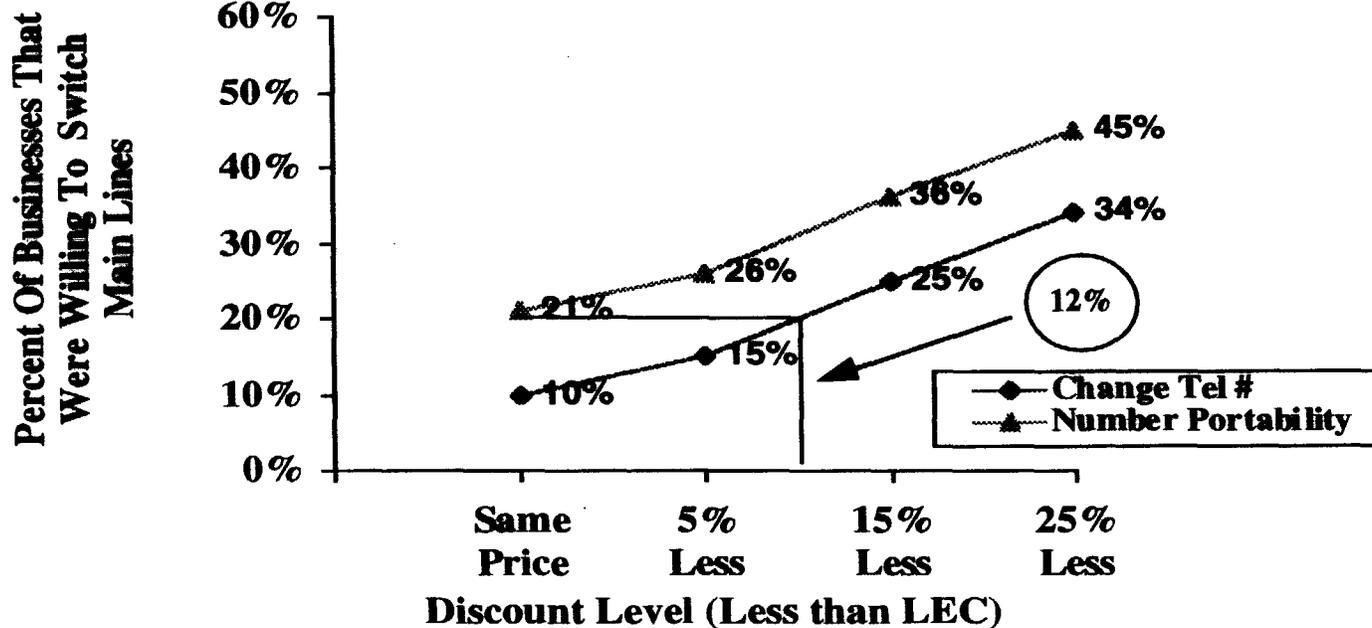
- **Businesses will consider pricing discounts more heavily than the ability to keep their telephone number**
- **The barrier of having to switch telephone numbers can be overcome by reasonable discounting strategies**
- **Only a 12% discount is required to capture businesses not likely to switch because of a number change**
- **Based upon current offers being made in the intraLATA toll arena, as well as normal “cost of entry” expectations, this level of discount does not seem to be an insurmountable barrier to potential alternate providers**
- **In any given situation (i.e., combination of discounting, brand and service bundling), the addition of number portability only captures approximately 10% more of the business market**
- **While any customer, when asked whether their telephone number is important to them, will seem resistant to switching numbers, the actual impact of switching a number is far less significant when all elements of deciding to switch local service providers are evaluated simultaneously**
- **In almost all situations, businesses are slightly more likely to switch Other & DID numbers than main numbers**

The relative value of a main line incumbent number is equivalent to a 12% discount on local and toll telephone service **PACIFIC BELL**

A Pacific Telesis Company

Incumbent Long Distance Company

Trade-off Between Service Discount and Number Portability (Business)



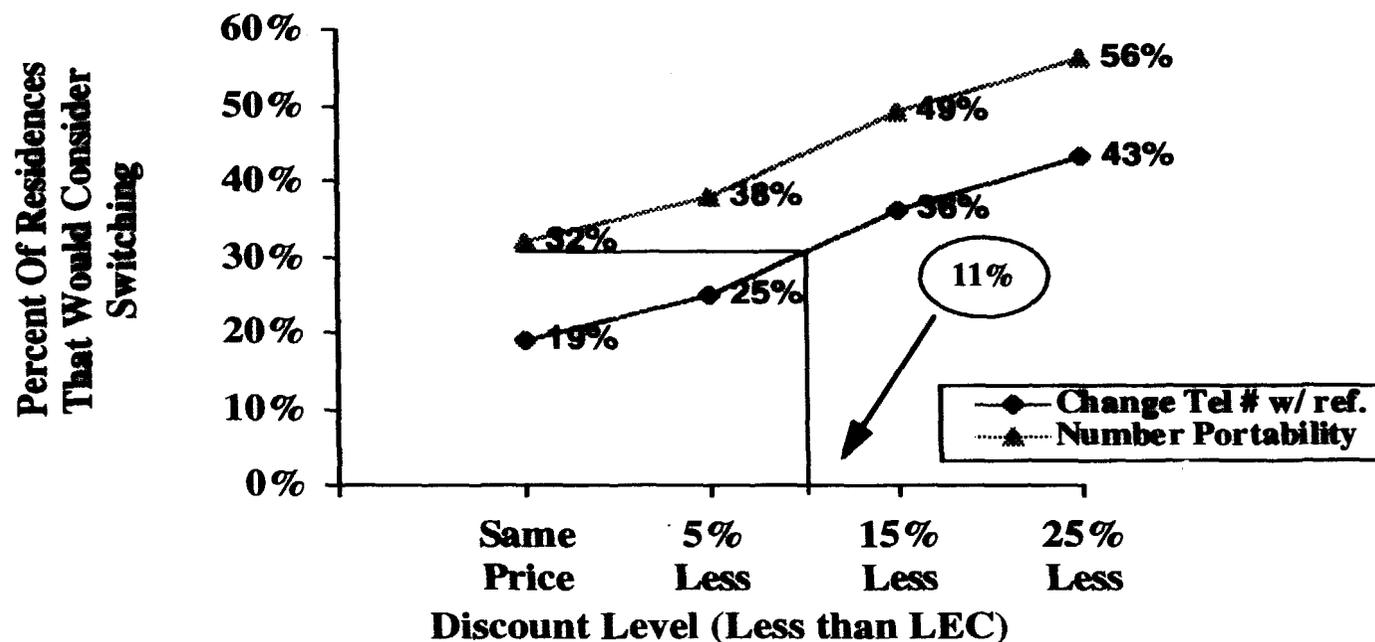
Relative Value of Number Portability (Residence)

- A substantial proportion of residence customers will consider switching from Pacific Bell to a different local access and toll provider, with or without number portability
- The availability of number portability only motivates an additional 10% - 15% of the customer base under any given scenario to change local service providers
- Discounting will add an additional one quarter (24%) of the residence base to the potential competitive market
- The “barrier” of having to switch telephone numbers can be overcome by reasonable discounting strategies
- Only an 11% discount is necessary to compensate for the impact of requiring a number change
- Based upon current offers being made in the intraLATA toll arena, as well as normal “cost of entry” expectations, this level of discount does not seem to be an insurmountable barrier to potential alternate providers

The relative value of a residential telephone number is equivalent to approximately an 11% discount off local and toll service in the decision making process

Incumbent Long Distance Company

Trade-off Between Service Discount and Number Portability (Residence)



New entrants appear to be able to overcome a lack of number portability by simply continuing their current discounting practices!



- **AT&T**
 - **10% - 20% discounts** below Rochester Telephone's rates
 - Existing and new customers receive 60 free minutes for the month
 - Separate, heavily discounted rate schedule was effective through June 1995
 - **16% discount** effective January 1 on intraLATA toll calls with no difference in underlying costs
- **MCI**
 - Recent change in "Friends & Family": **25% discount** if call is outside circle, **50% discount** if in the circle
- **Sprint**
 - Special rates down to 1 cent per minute for intraLATA
- **MFS**
 - "Our local calls are on average **19% cheaper** than the existing NYNEX local usage"