



## Methodology - Qualitative Phase

---

Phase I of this research study was conducted in the form of focus groups. A total of four groups were conducted in Northern and Southern California to account for any geographical variations.

After discussions with the Clients at Pacific Bell, it was determined that the low income residence segment should be evaluated separately because of the potential for special issues or analysis within this group. To define this segment, the Universal Lifeline income qualifications (which are stratified by income and number of people in household) were used. Two focus groups were conducted among participants who qualify for Lifeline service ("Low Income/Lifeline") and two groups were conducted among those who do not qualify ("Income Above Lifeline").

The focus groups were conducted according to the following matrix:

	<u>SAN FRANCISCO</u>	<u>LOS ANGELES</u>
	ConStat, Inc.	Adept Consumer Testing
	November 15	November 16
Low Income/Lifeline	@ 6:00pm	@ 6:00pm
Income Above Lifeline	@ 8:00pm	@ 8:00pm

To qualify, participants had to be the residence's telecommunications decision-maker. In addition, only residences that used Pacific Bell for their local telephone services were recruited.

To account for additional variations which might impact a residence's willingness to switch their number, a variety of participants were recruited based on the following characteristics:

- Number of telephone lines;
- Published versus non-published telephone number;
- Monthly local telephone bill;
- Use voice mail, fax machines and/or modems and;
- Experienced a phone number or area code change.



## Methodology - Qualitative Phase

---

Participants were recruited from ConStat's central interviewing facility in San Francisco on a random basis from available lists of residences and RDD sample, and screened using a questionnaire developed by ConStat. To ensure no biases would result because of experience with or attitudes toward Pacific Bell, all focus groups were recruited and conducted without revealing to the participants who the Client was. Participants were incented to participate in these focus groups.

A moderator's guide was developed by ConStat with input and approval by the Clients. A copy of the Moderator's Guide and the screening questionnaire have been included in the Appendix of this report. All focus groups were moderated by William D. Deaton, Ph.D., a principal from ConStat.

### **Research Limitations:**

As with all qualitative research, results from this phase were exploratory in nature and were meant to provide directional information for the quantitative phase from a small, non-random sample of residences customers. Qualitative results may not be representative of the entire customer base, and therefore, cannot be used to forecast demand or make projections about the population as a whole.



## Methodology - Quantitative Phase

---

### Quantitative Research Approach:

Because the decision-making process that residence customers face when evaluating telecommunications services is a trade-off between the various elements involved in the decision (e.g., keeping the number versus 15% savings) and the elements are weighed simultaneously by the decision-makers, ConStat recommended a quantitative research approach that replicated this decision-making process as closely as possible.

This approach is called full-profile conjoint analysis. By using an experimental design (a well-known method of systematically varying the decision-making elements), this technique manipulates the decision-making elements into numerous combinations, creating incentive/solution scenarios, and exposes each respondent to a number of these scenarios. After asking respondents how likely they would be to switch local exchange carriers under each scenario, the "value" of each element in the trade-off decision was determined via the conjoint analysis (a regression technique commonly used in market research applications). Using this technique, the impact of different scenarios on Pacific Bell customers can be identified.

To further increase the validity and reliability of the data, ConStat administered the conjoint approach via a "defection analysis." A defection analysis approach is based on fundamental decision-making theory that assumes that decisions about making changes from the status quo (e.g., a decision to replace a current product or service) are easier for a decision-maker to visualize in their minds than decisions about a hypothetical or potential situation (e.g., evaluating the "value" of their number). As a result, 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:

To conduct the quantitative phase, a telephone-mail methodology was used. With this methodology, potential respondents were first recruited by telephone for participation in the study, and then sent a mail questionnaire for the administration of the conjoint analysis.

Potential respondents were recruited from a random digit dialing (RDD) sample across Pacific Bell prefixes. The sample used for this study was purchased from Survey Sampling, Inc. (SSI).

To ensure a representative cross-section of Pacific Bell's residence customer base, ConStat initially recruited a random sample of 681 residence respondents. To provide an adequate sample for analysis in the "Low Income/Lifeline" segment, an additional 131 participants were recruited from this group. The actual number of recruited participants and completed interviews is shown below:

	Number of Recruited <u>Participants</u>	Number of Completed <u>Surveys</u>	Response <u>Rate</u>
<b>Random Sample ("Total").....</b>	<b>681</b>	<b>447</b>	<b>66%</b>
Income Above Lifeline		397	
Low Income/Lifeline		50	
<b>Additional Low Income Respondents.....</b>	<b>131</b>	<b>69</b>	<b>53%</b>
<b>Low Income/Lifeline Only</b>		<b>119</b>	

\* Throughout this report, the random sample is referred to as "Total" and includes the appropriate distribution of Low Income customers.

Participants recruited for this study were the persons most responsible for decisions regarding local exchange telephone services for their household. Potential participants were eliminated from the recruitment if they worked for a telecommunications service provider or a marketing research and consulting firm, or if the participant used GTE exclusively for local telephone services. All participants were recruited randomly from the purchased sample. In addition, this recruit was conducted "blind," that is without knowledge of the company sponsoring the survey.



## Methodology - Quantitative Phase

---

### Questionnaire Design and Development:

The recruitment screener and the mail questionnaire were designed and developed by ConStat, with input and final approval from the Clients at Pacific Bell. Copies of all materials are included in the Appendix of this report.

Because of the complexity of the issues at hand, the design of the questionnaire was of critical importance and merits some explanation here. A close review of the qualitative findings led to the following design decisions.

During the qualitative phase, it became apparent that customers would need to know whether specific telecommunications services would be affected if they were to switch local telephone provider. Consequently, the questionnaire included the following explanation of the affects of local access competition so all survey respondents would have the same, basic understanding of local access competition and any uncertainties would be clarified.

### Explanation of Local Access Competition:

**If you switched your local and toll service to a different local telephone company...**

- *The new company would...*
  - *Provide your local and toll service, including line charges and local and toll call charges.*
  - *Provide any other local or line services that you are currently receiving from your current local telephone company, including features such as call waiting or calling cards.*
  - *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 still be listed with the White Pages or with Directory Assistance (411).*
- *Your long distance services would not be affected.*



## Methodology - Quantitative Phase

### Elements of Trade-off Design:

<b>Type of Company</b> .....	Current Long Distance Company Other Telecommunications Company Cable Television Company
<b>Bundled Services</b> .....	Local and Toll Service Only Local, Toll and Long Distance Service
<b>Service Discount</b> .....	0% off local telco costs 5% off local telco costs 15% off local telco costs 25% off local telco costs
<b>Impact on Telephone Number</b> .....	Number remains the same Announcement <i>only</i> for 6 months Announcement <i>only</i> for 1 year Announcement <i>and</i> Transfer for 6 months Announcement <i>and</i> Transfer for 1 year

The elements tested in the conjoint scenarios are shown above. To decrease burden on the respondent and ensure that the importance of the most critical items was not clouded by other variables, only the elements that were identified as most influential during the qualitative research were included in the conjoint design.

In the qualitative phase, the brand of the telecommunications provider was seen as an important criterion for a consumer's willingness to switch. For a residence customer to consider switching, a telecommunications provider must provide a minimum level of service quality, customer service and brand familiarity. Since several of the likely market entrants were relatively unknown to the majority of residence customers (e.g., MFS, ExpressTel), measuring these specific brands would primarily reflect a level of awareness, which is not relevant to the objectives of this study. Similarly, cable television companies were considered potential providers by some participants, however the variety of potential companies due to geographic differences would be too great to measure specifically.



## Methodology - Quantitative Phase

---

However, the incumbency effect of the current long distance company appeared to be substantial enough to be included as a brand element. As a result, choices for a telecommunications provider were either a customer's current long distance company, another telecommunications company, or a cable television company.

Because a "single point of contact" had an effect on willingness to switch during the focus groups, two levels of telecommunications services were offered - local and toll service only, or local, toll and long distance services. When presented in the conjoint scenarios, only those options which were realistically feasible were presented. For example, scenarios that would offer "local and toll services only" from the customer's current long distance company presented a contradiction since long distance services were already provided. Consequently, the current long distance company was always presented as offering local, toll and long distance services.

Several discounts on service were used in the conjoint scenarios, ranging from 0% to 25% less. It was discovered in the qualitative phase that customers had difficulties identifying toll charges separate from local access charges and were concerned that they would not realize the "promised" savings. Additionally, it seemed likely that potential competitors would offer a simpler "overall" discount rather than discount local access and toll charges separately. Therefore, the discounts were described as a specific percent less than all current local telephone company costs and these prices would always be that percent lower than their current local phone company (i.e, Pacific Bell).

To ensure that many possible alternatives to number portability were tested, several different possible impacts on the phone number were presented as a consequence of a residence switching its local provider. One of these options was that the number "remains the same." Number retention was presented to the customer as a single option, regardless of the technological endeavors behind it. As discovered in the qualitative phase, customers did not distinguish between remote call forwarding, interim number portability or full number portability as long as their number did not change. The other options presented in the scenarios - the referral announcement or the referral announcement and transfer - all accompanied a number change. It was assumed that, minimally, Pacific Bell would provide an announcement for 6 months as it does today; a longer duration of 1 year was also tested.

All of the elements used in the conjoint scenarios were explained fully to the respondents in a "Dictionary of Terms" which accompanied each mailed survey. Please refer to the Appendix of this report for a copy of this booklet.

## Methodology - Quantitative Phase

### Sample Conjoint Question:

- 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.....

After determining the elements to be tested in the conjoint analysis, an experimental design was used that exposed respondents to the elements by systematically developing potential competitive "scenarios." Using the elements described on the previous pages, respondents were presented with 25 different scenarios, an example of which is shown above. After each scenario was presented, respondents were asked to indicate how willing they would be to consider switching under that situation. To remove the potential impact of order effects, two booklets were created which presented the scenario in different orders. The 25 specific scenarios used in this study can be found in the questionnaire at the Appendix of this report.

The questionnaires used for this study were thoroughly pre-tested via in-person interviews prior to the actual survey mailing. Pre-tests were conducted among qualified potential respondents, and were stratified by income to allow for possible variation. The final questionnaires were approved by the clients at Pacific Bell prior to being printed.

## Methodology - Quantitative Phase

---

### Data Collection and Tabulation:

All telephone recruiting and questionnaire mail-out was done at ConStat's central interviewing center by interviewers and staff experienced in telecommunications research projects. The recruitment of participants for the mail survey occurred from November 26, 1994 through December 9, 1994. Approximately 10% of all telephone interviews for each interviewer were monitored.

To ensure 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."

After agreeing to participate in the mail survey, all cooperating recruits were sent a survey packet containing a cover letter, main questionnaire, a SASE Priority Mail return envelope, and a \$5 incentive to stimulate returns.

All completed mail questionnaires that were returned to ConStat by January 9, 1995 were edited for internal consistency and logic and entered into ConStat's data processing system for analysis and cross-tabulation.

Two sets of data tables were prepared by ConStat, one for the overall, random population and one for the low income segment. Additionally, separate conjoint analyses were conducted within each of these groups and a spreadsheet was designed that would calculate the proportion of residences that would be likely to switch under any combination of elements.

To determine the percentage of residences that would switch given a specific competitive scenario, the following conversion factors were assigned to the results of the conjoint analysis in an attempt to more closely estimate the actual "demand" under any specific scenario.

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



## Methodology -Quantitative Phase

---

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 the potential competition).

To validate the conjoint analysis and the resulting model, the conjoint results were compared to the actual cross tabulated results and found to agree within sampling error (see Appendix for comparison).

### Research Limitations

While external factors such as awareness, inertia, advertising and related marketing efforts are likely to influence the decision to switch, those variables were not tested in this study. As with any market research study, additional forecasting and analysis is necessary to account for the impact of these variables.



## Conclusions

---

### Relative Value of Number Portability

- 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 to switch under any given scenario. As an example, if a long distance company offers local services for 15% less than the current price, 36% of residences will switch local service without number portability compared to 49% who will switch with number portability (+13).
- However, discounting (from none to 25% less) will add an additional one-quarter (24%) of the residence base to the potential competitive market. For example, given number portability and local, toll and long distance services offered by the incumbent long distance company, one-third (32%) of all residence customers would switch with no discount while 56% would switch with a 25% discount (+24).
- Given this, the barrier of having to switch telephone numbers can be overcome by reasonable discounting strategies. To compensate for the impact of requiring a number change, only an 11% discount is necessary. Based on current offers being made in the intraLATA toll arena, as well as normal "cost of entry" expectations, this level of discount does not appear to be an insurmountable barrier to potential alternate providers.
- The highest proportion of residences that is likely to be captured by local access competitors is 56% (based on a long distance company offering a 25% discount with number portability). This implies that there are some residence customers that are unwilling to change for reasons such as being satisfied with Pacific Bell or not thinking another provider can offer the same level of service.

### Alternatives to Number Portability

- Since number portability is not as influential as discounts on local and toll services, it is highly possible that an environment can be created that requires a telephone number change if a residence wishes to switch providers. In this case, any of the number change alternatives tested (e.g., announcement with transfer for two years) will result in approximately the same percent of residences switching. Since the difference between offering the existing referral product (announcement for 6 months) and either extending the length of the announcement or adding automatic transfer capabilities does not significantly influence the likelihood to switch, changing the number referral process does not seem to be an efficient or cost-effective method for resolving the issue of an "equal playing field." Given this finding, the true issue of concern to



## Conclusions

---

consumers is whether they keep their telephone number or not; the specific technological solutions are relatively unimportant.

- Another potential alternative may be to provide a choice which enables customers to pay if they wanted to keep their telephone numbers. One-fourth (24%) of all residences would be willing to pay an average of almost \$5.00 per month to keep their telephone number.
- As far as any possible concerns that announcements that accompany a number change might keep consumers from re-dialing the number, this does not seem to be the case. As callers, residence customers indicated that, in the great majority of the instances when they encounter a number change announcement, they hang up and re-dial the new number immediately. This holds true whether calling a business (86% of the time) or a residence (89% of the time).

### Impact of Brand/Service Bundling

- The brand or type of alternative provider does not have as much influence as the price of the service or the impact on the telephone number. Residence customers did show a preference for their current long distance company (36%) over another telecommunications company (32%) or a cable television company (27%). (Percentages reflect a 15% discount, bundled services and number change required.)
- Residence customers also have a slight preference for bundled services (local, toll and long distance), provided they are offered by a telecommunications company. If a cable television company were to offer bundled services (27%) there is no increase in the proportion of residences willing to switch than if only local and toll services were offered (26%). However, if another telecommunications company offers bundled services (32%), the percent of residences willing to consider switching does increase over an offer that did not include long distance (27%).
- When asked which company they would switch to for local services, residence customers' preferences mirrored the current market share disposition in the existing long distance market. In addition to reinforcing the preference for an incumbent long distance company, this suggests that some primary factors in selecting a long distance brand are also evaluated when selecting a local brand, such as awareness, reliability and customer service. In the focus groups, it was clear that any potential local access provider must provide a certain "threshold" level of these elements to even be considered. However, since these items are basic measures of brand strength, they exist whether or not telephone

## **Conclusions**

---

number change is necessary and therefore do not seem to be relevant to the decision to adopt number portability.

- In addition to having these basic expectations of a new local provider, residences also have these requirements if they are considering their existing long distance company for local service and may choose a different company if they are not satisfied with their current long distance company. While the majority of AT&T long distance customers (75%) would also select AT&T for local and toll, only one-third (35%) of MCI customers and not quite half (44%) of Sprint customers would choose their existing carrier for local and toll services, implying a certain level of dissatisfaction with these companies.

### **Differences between Types of Residences**

- To some surprise, the Low Income segment did not show substantial differences from the total residence population. In general, they were slightly less likely to switch in any given situation, even if considerable discounts were involved.
  - The segment of residence customers most impacted by the availability of number portability is those who work at home. While the increase in percent of residences willing to switch without versus with number portability is +13 across all customers, the increase among the work at home segment is +18, suggesting they are more sensitive to a number change. However, with number portability, over half of this segment (54%) is willing to switch (assuming long distance company and 15% discount).
  - In general, younger customers are more willing to switch local access providers regardless of whether number portability is available or not. Likewise, larger households are also more likely to switch than smaller households. Additionally, availability of number portability has more impact on smaller households (1 or 2 people), suggesting that members of this segment place more value on keeping their telephone numbers.
  - Similarly, households with higher monthly telephone bills are more likely to switch overall, but are less sensitive to having their number changed. The same holds true for MCI and Sprint customers versus AT&T customers.
  - Other than those differences, the "value" of the telephone number (as determined by the difference between those who switch with or without a number change) does not differ much between different types of residences. Past switching behavior and mobility variables do not differentiate customers as far as the importance of keeping their number.
-



## Conclusions

---

### Other Influences on Willingness to Switch

- Although perceived by consumers as "perks" that must be accompanied by a discount on service, other potential incentives to switch local access providers were also tested. Only a few of these seemed to have much influence on the decision to switch, primarily "financial" incentives such as a 10% discount on long distance service, free basic cable television service for 3 months, a \$35 check or free call waiting for 1 year. These incentives would only strongly impact about one-fifth of all consumers.



### Understanding of Potential Local Access Competition

When the focus group participants were first presented with the concept of local access and toll competition, there was some initial confusion and concern. Most of the concerns raised regarded the potential impacts a service provider change would have on other aspects of their existing telephone service. For example, there were questions about how long distance services would be affected if a customer switched from Pacific Bell. More rudimentary concerns were raised regarding repairs, the availability of calling cards, and whether or not their number would still be listed in the White Pages directory or available through Directory Assistance (411).

In addition, there was a great deal of confusion about the differences between "local" and "toll" calls. While customers understood that there was a difference, they could not accurately define the distinguishing characteristics of an intraLATA toll call (e.g., miles from the household, area codes, townships, prefixes, etc.), although most agreed that they were the "expensive" calls on their Pacific Bell bill. Consequently, most participants felt it was very confusing to have different discounting for local access versus toll services because it would be impossible for them to know which calls were which. As a result, it became necessary to describe a discount as a percentage less than whatever a residence customer pays their local telephone company now (in total), rather than discounting specific aspects of the service. This important finding became the basis for the discount attributes in the quantitative study.

It also was apparent that a certain amount of education and clarification was necessary for the participants to understand how local access competition and switching providers would affect them as a residential customer. When a new competitor enters the market, it is likely that they would educate potential customers about the local telecommunications environment and explain the impact of switching providers so as to simplify their sale. As a result, the quantitative survey was designed to simulate a "competitive pitch" as closely as possible by clearly defining the present local telecommunications environment, describing CPUC changes, and minimizing confusion by delineating those telecommunications services that would be unaffected by switching providers.

### **Willingness to Change Local Access Provider or Telephone Number**

Several issues regarding a residence's willingness to switch its provider or phone number were raised by the participants or uncovered during the groups. Most importantly, a residence's willingness to switch, in general, seemed most strongly related to the discount offered. Almost all participants assumed there would be a discount involved with switching even before a number change was mentioned. Many participants showed some savvy in dealing with telecommunications companies by bargaining for a higher discount. In fact, several mentioned how they used offers from other long distance companies to negotiate a better price from their existing company. All also assumed there would be no cost to them for switching.

Other than discount, there were some interesting reasons why customers would be willing to switch local service providers. Some participants were willing to switch without any discount to consolidate their telecommunications services with one company. Those customers pointed to the advantages of a "single point of contact" being simplified and uncomplicated, like the "way things used to be." A few felt that the entire telecommunications industry had become too confusing since the breakup of AT&T.

On the other hand, most other participants felt that local competition would be positive for consumers ("Competition is a healthy, American thing"). Some even went as far as saying they would be willing to switch because they no longer wanted to have service from Pacific Bell ("They've been ripping us off for years").

Despite the perspective participants had, most agreed that they would need to know the exact offer before switching and that the new service would have to be as good as Pacific Bell's to be considered. Once these concerns were addressed and a discount level was "accepted" by participants, the concept of number change was introduced. For the most part, there was not too much "re-negotiating" on the part of participants, and the majority indicated they would still switch. However, some new concerns were raised. Primarily, all participants assumed there would be a number change announcement similar to what exists now. In addition, many participants wondered what would happen if they switched providers, changed numbers and then decided to switch back (for example, if savings were not realized or the quality of service was inadequate). Since consumers are aware that they can usually switch back to their original long distance company at no cost, they would want the same flexibility for local and toll services. However, if number changes were required each time they switched, participants felt it could be extremely confusing; some even worried that there would not be any telephone numbers left.

## ■ Detailed Findings - Qualitative Phase

### Influences on Willingness to Change Local Access Provider

After discussing the major issues surrounding local competition and a potential number change, participants were asked to suggest incentives that would motivate them to switch local access providers. Invariably, respondents immediately mentioned a discount off of their local, toll or long distance service. However, to ensure that all possible options were explored and then to narrow the field of incentives to be evaluated in the quantitative phase, an inventory of potential incentives and/or number change mitigators were evaluated in the qualitative phase. The list of incentives tested are shown below.

As mentioned before, the discount or savings on local/toll service and the type of service provider would influence most participants' decision to switch. The service provider was particularly important to some participants, and there was generally a strong resistance to switch to an "unknown" brand unless the company offered the same level of customer service, service quality, a "proven track record", and brand familiarity that they currently have.

### Influence of Incentives/Mitigators on Willingness to Change Access Provider

	High	Medium	Low
• Discount on local/toll service	✓		
• Discount on long distance service		✓	
• Service Provider:			
Long Distance Company	✓		
Other Telecommunications Company		✓	
Cable TV Provider (depends on provider)		✓	✓
• Announcement of Number Change	✓		
• Announcement and Automatic Transfer		✓	
• Duration of Announcement/Transfer		✓	
• Ability to customize announcement			✓
• Free Call Waiting for 1 year	✓		
• A \$35 check	✓		
• Savings on cable television service		✓	
• Free telephone set			✓
• Discount for 1-year contract			✓

## Detailed Findings - Qualitative Phase

---

In addition, some participants were unwilling to switch their local and toll service without some type of "money-back guarantee" or trial period after which they could return to Pacific Bell without penalty. Others also wondered about the "local presence" of a provider and questioned how a national long distance company could effectively provide local service.

When evaluating a cable television company as a potential provider of telecommunications services, the reactions were mixed and depended upon the type of service relationship a participant had with the current cable provider. While many participants would not even consider a cable company because of a "bad experience," customers who had had limited problems with their cable provider would consider switching their local and toll telephone services. For these customers, free cable television offers (e.g., basic subscription or premium channel) had substantial influence on their willingness to switch. However, the viability of a cable company offering long distance service presented a conflict, as some participants perceived cable companies as "local" or "regional" entities.

In terms of the impact on their telephone number, while a standard number change announcement would be a requirement for participants to change numbers, an announcement with transfer, and the duration of the announcement or transfer were less important. Having the call transferred automatically after the announcement was relatively appealing, however, the opportunity to customize an announcement did not seem necessary to most residential participants. Additionally, most participants felt that the announcement for 6 months was sufficient for their needs. Although some participants responded favorably to a longer duration for the announcement, this was not likely to greatly influence their decision to switch local access providers.

Of limited influence on a participant's decision to switch local access providers was the offer of a free telephone set. However, it should be noted that some participants were willing to switch if the free phone was a cellular phone. Also of limited influence was a discount on services if locked into a one-year contract. While customers were drawn to the potential discount offered, there was a great deal of hesitancy to "commit" contractually to a company for one year because other telephone companies might have better prices in the interim.



## **Detailed Findings - Qualitative Phase**

---

While other incentives and marketing tactics could be used by actual entrants into the local telephone market, it would have been impossible to test all potential incentives and/or mitigators to a phone number change. Additionally, all consumers, when offered a "perk," will respond positively, even though there may be no significant impact on their final decision. Regardless, the evaluation of marketing strategies to mitigate a phone number change was not an objective of this research study. From the discussion surrounding these incentives, the major issues were determined and included in the quantitative phase, specifically, the discount on local/toll service, the service provider and type of services offered and the type of number change announcement.



## **Detailed Findings - Quantitative Phase**

---

The following section covers the findings from the second, quantitative phase of the research, and is categorized as follows:

- **Current Telecommunications Environment**
- **Impact of Elements on Willingness to Switch Providers**
  - **Technological Solutions**
  - **"Brand" and Service Bundling**
  - **Discounts**
- **Trade-off Between Service Discount and Number Portability**
- **Willingness to Pay to Keep Telephone Number**
- **Value of Number Portability by Residence Characteristics**
- **Impact of Other Elements on Likelihood to Switch Providers**
- **Preferred Provider for Local Access**
- **Impact of Referral Announcement on Calling Behavior**

In most sections, the results have been reported by "Total" (random sample of all Pacific Bell customers) and "Low Income" (Universal Lifeline qualifications). As shown in the Sample Design section, there is some overlap between these groups. However, the "Total" segment reflects the actual proportion of Low Income customers that is found in the population.

The following two pages provide a brief summary of the telecommunications environment among the survey respondents.



## Current Telecommunications Environment

---

	<u>Total</u>	<u>Low Income Only</u>
<b>Median Age</b>	45.2 years old	48.2 years old
<b>Average Household Size</b>	2.7 persons	2.5 persons
<b>Median Household Income</b>	\$40,483	\$10,044
<b>Have more than one line</b>	23%	0%*
<b>Have an unlisted number</b>	36%	42%
<b>Work at Home</b>	20%	4%
<b>Own their residence (versus rent)</b>	62%	43%
<b>Average Total Monthly Bill</b>	\$59.50	\$49.10
<b>Average Long Distance Bill</b>	\$30.70	\$26.10
<b><u>Use of Custom Calling Features</u></b>		
- Call Waiting	40%	37%
- Call Forwarding	6%	5%
- Three Way Calling	5%	5%
- Voice Mail	7%	1%
<b>Likely to Move Within Next 2 Years</b>	33%	29%
<b>Ever Changed Telephone Number</b>	64%	55%
<b>Average Years with Current Number</b>	7.0	4.6
<b>Ever Switched Long Distance Carrier</b>	37%	31%
<b>Use Remote Call Forwarding</b>	2%	3%
<b>Have Cable Television</b>	63%	42%
	(n=447)	(n=119)

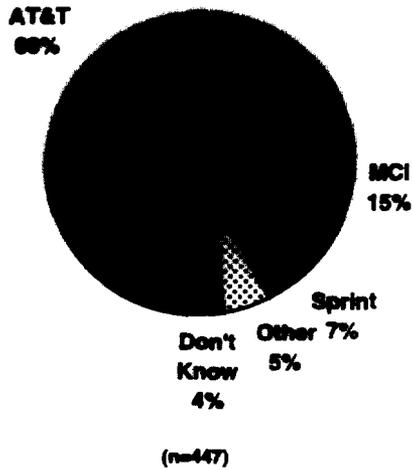
\* By nature of screening qualifications



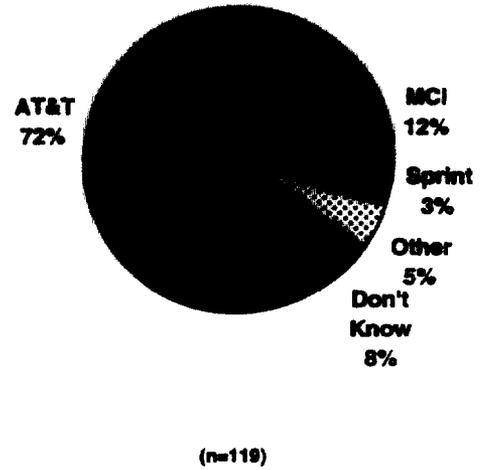
## Current Telecommunications Environment

### Current Long Distance Vendor

Total



Low Income Only

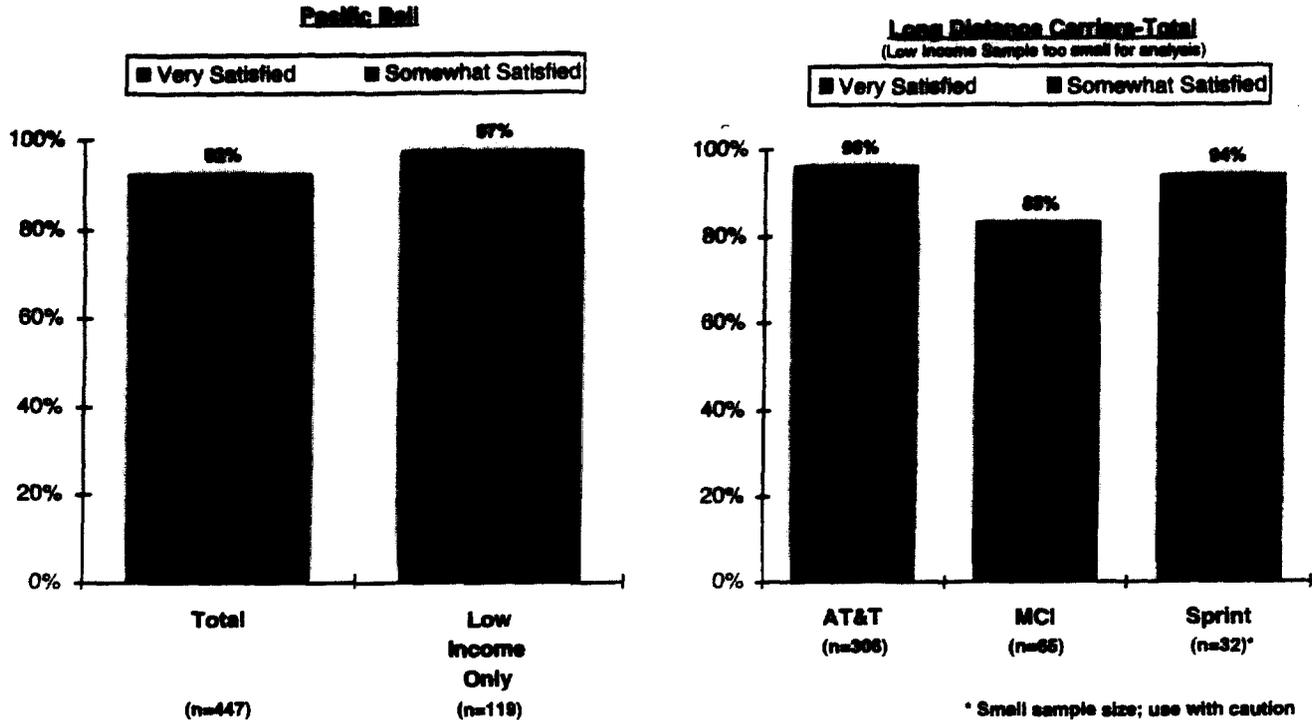


The long distance providers used by the residence respondents generally reflect the composition of the long distance market shares garnered by AT&T, MCI and Sprint.



## Current Telecommunications Environment

### Satisfaction with Current Vendors



The majority of residential customers are satisfied with the service they receive from Pacific Bell and from their current long distance vendor. However, less than half (48%) of the respondents who use MCI were "very satisfied" with their service, suggesting that MCI customers have less loyalty to MCI in general, and may be more prone to switching carriers. On the other hand, satisfaction with AT&T (80%) is somewhat higher than satisfaction with Pacific Bell (70%), a finding that could influence likelihood of switching to AT&T for local service as well.



## **Impact of Elements on Willingness to Switch Providers**

---

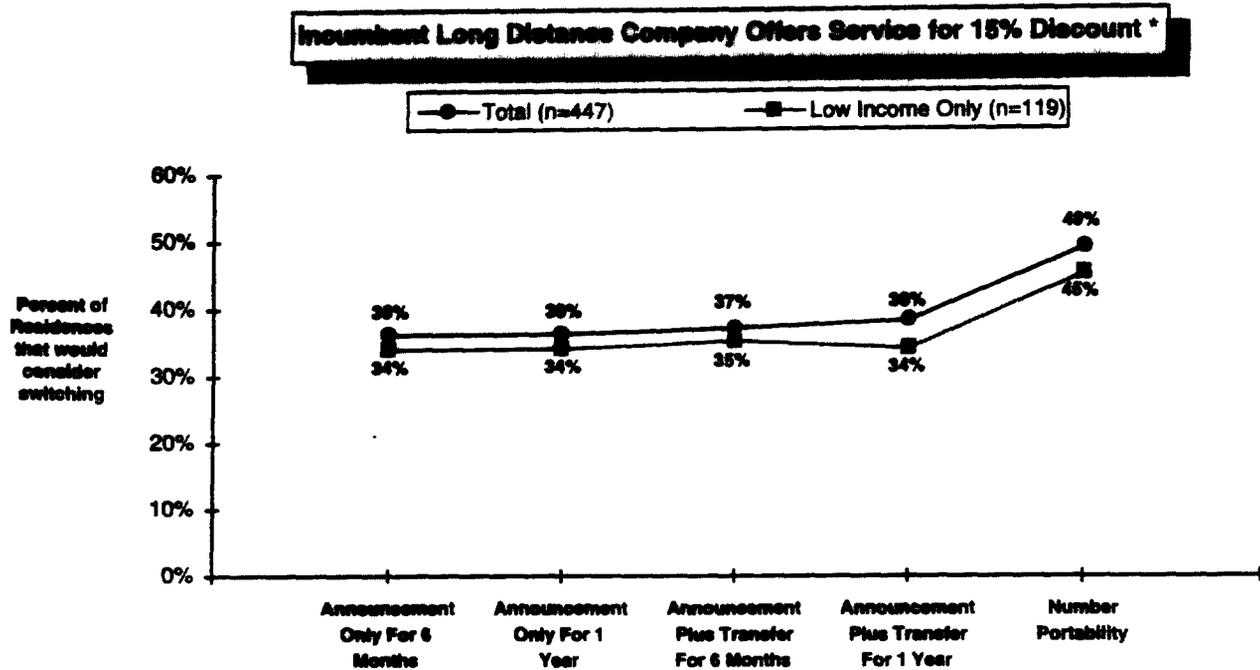
The following section outlines the relative influence of each of the major items that were included in the conjoint analysis. By holding all but one element constant, the influence of each element can be determined.

For consistency, a probable scenario was selected as the baseline for these comparisons. This scenario is: a long distance company offering local, toll and long distance services at a 15% discount (on local and toll), requiring a number change and an announcement for 6 months.

The results show both the percent of all residences and the percent of Low Income residences that are willing to switch under any given scenario.



## Impact of Technological Solutions



(Percent switch scale: 4=75%, 3=50%, 2=25%, 1=0%)

The various technological solutions offered to mitigate a number change -- from a standard announcement for 6 months to an announcement with transfer for 1 year -- have relatively little impact on likelihood to switch local telephone providers. Regardless of the technological solution type or its duration, more than one-third (36%) of residence customers would consider switching even if a number change occurred. However, if number portability was available with this offer (long distance company and 15% discount), half (49%) of all residences would consider switching.

\* Results for additional discount levels included in Appendix