

27. Assuming that you had to change your telephone numbers if you switched service, how much would each of the following influence your likelihood to switch your local and toll telephone service to another company? For each one, please indicate whether it would make you much more likely to consider switching, somewhat more likely to consider switching or have no affect on your likelihood to consider switching.

MUCH MORE LIKELY SOMEWHAT MORE LIKELY HAVE NO AFFECT

The company reimburses you for \$1,000 towards reprinting your business stationary..... ₃ ₂ ₁ [397]

You could customize the announcement people hear when they call your old number (e.g., "Thank you for calling ABC Rentals. Although our number has changed to 555-2222, our quality service remains the same") ₃ ₂ ₁ [398]

Your company is planning to move or relocate..... ₃ ₂ ₁ [399]

A new Yellow Pages Directory is just about to be published..... ₃ ₂ ₁ [400]

28. Assuming that you would switch your local and toll service under any of the offers presented, would there be a trial period during which you tested the new company's services by only switching some lines to the new company, or would you switch all of your lines at once? [401]

Would test services first and only switch some lines..... ₁
 Would not test services..... ₂

<p>28b. How many lines would you switch initially?</p> <p>LINES TESTED: _____ [402:05]</p> <p>28c. If the services tested were satisfactory, how many lines would you eventually switch?</p> <p>LINES SWITCHED: _____ [406:09]</p>	<p>→</p>
--	----------

SECTION III - MARKETING AND TELECOMMUNICATIONS

- 1a. Which of the following advertising or sales avenues does your company use?
- 1b. Which of these have your phone number displayed or announced?
- 1c. Which is your primary source of business?

	Q. 1a <u>USE</u>	Q. 1b <u>HAS PHONE NUMBER</u>	Q.1c <u>PRIMARY SOURCE</u>
Yellow Pages advertising.....	<input type="checkbox"/> 01 (410-11)	<input type="checkbox"/> 01 (430-31)	<input type="checkbox"/> 01 (450-51)
Television advertising	<input type="checkbox"/> 02 (412-13)	<input type="checkbox"/> 02 (432-33)	<input type="checkbox"/> 02 (452-53)
Radio advertising.....	<input type="checkbox"/> 03 (414-15)	<input type="checkbox"/> 03 (434-35)	<input type="checkbox"/> 03 (454-55)
Newspaper/magazine advertising	<input type="checkbox"/> 04 (416-17)	<input type="checkbox"/> 04 (436-37)	<input type="checkbox"/> 04 (456-57)
Outdoor advertising/billboards/trucks.....	<input type="checkbox"/> 05 (418-19)	<input type="checkbox"/> 05 (438-39)	<input type="checkbox"/> 05 (458-59)
Flyers or direct mail	<input type="checkbox"/> 06 (420-21)	<input type="checkbox"/> 06 (440-41)	<input type="checkbox"/> 06 (460-61)
Business cards.....	<input type="checkbox"/> 07 (422-23)	<input type="checkbox"/> 07 (442-43)	<input type="checkbox"/> 07 (462-63)
Trade directories or publications	<input type="checkbox"/> 08 (424-25)	<input type="checkbox"/> 08 (444-45)	<input type="checkbox"/> 08 (464-65)
Storefront/drop-in.....	<input type="checkbox"/> 09 (426-27)	<input type="checkbox"/> 09 (446-47)	<input type="checkbox"/> 09 (466-67)
Word-of-mouth/referral.....	<input type="checkbox"/> 10 (428-29)	<input type="checkbox"/> 10 (448-49)	<input type="checkbox"/> 10 (468-69)
Any other source? (WRITE IN BELOW)			
_____	<input type="checkbox"/> 99	<input type="checkbox"/> 99	<input type="checkbox"/> 99

2. Approximately how many different customers or clients does your company have?

Less than 100	<input type="checkbox"/> 1	
100 - 499	<input type="checkbox"/> 2	[470]
500 - 999	<input type="checkbox"/> 3	
1,000 - 4,999	<input type="checkbox"/> 4	
Over 5,000	<input type="checkbox"/> 5	

3. What proportion of all of your sales is repeat business from past customers?

PERCENT REPEAT BUSINESS: _____ % [471:73]

4. Which of the following methods, if any, does your company use in its sales efforts? If you use more than one, please indicate which one is used most.

	<u>USE</u>	<u>USE MOST</u>
Inbound sales on regular phone number	<input type="checkbox"/> 1 (474)	<input type="checkbox"/> 1 (478)
Inbound sales on 800 number	<input type="checkbox"/> 2 (475)	<input type="checkbox"/> 2
Outbound telephone sales	<input type="checkbox"/> 3 (476)	<input type="checkbox"/> 3
In-person sales/walk-in	<input type="checkbox"/> 4 (477)	<input type="checkbox"/> 4
None of these	<input type="checkbox"/> 5	

5. How frequently does your company reprint its...

	<u>BUSINESS STATIONERY AND LETTERHEAD</u>	<u>BUSINESS CARDS</u>
At least every 6 months	<input type="checkbox"/> 1	<input type="checkbox"/> 1
Every 6 months to 1 year.....	<input type="checkbox"/> 2	<input type="checkbox"/> 2
Every 1 year to 2 years	<input type="checkbox"/> 3	<input type="checkbox"/> 3
Every 2 years to 3 years.....	<input type="checkbox"/> 4	<input type="checkbox"/> 4
Every 3 years or more.....	<input type="checkbox"/> 5	<input type="checkbox"/> 5
	[479]	[480]

6. How likely is your company to move locations within the next 2 years?

Very likely	<input type="checkbox"/> 1	[481]
Somewhat likely.....	<input type="checkbox"/> 2	
Not very likely	<input type="checkbox"/> 3	
Not at all likely	<input type="checkbox"/> 4	

7a. Has your company ever changed its main, published telephone number?

[482]

- YES 1 PLEASE ANSWER QUESTIONS 7b AND 7c
 NO 2 PLEASE GO TO QUESTION 8a

7b. Why did your number change?

- Moved locations 1
 Area code split..... 2
 Changed telephone companies 3
 Changed telephone systems 4

[483]

Any other reason? (PLEASE WRITE IN)

7c. When did your number change?

- Within the past 6 months 1
 6 months to 1 year ago..... 2
 1 year to 2 years ago 3
 2 years to 3 years ago..... 4
 3 years ago or more..... 5

[484]

8a. Does your company currently use Remote Call Forwarding or a Number Retention service that enables you to keep an old telephone number?

- YES..... 1 PLEASE ANSWER QUESTION 8b [485]
 NO..... 2 PLEASE GO TO END

8b. Does your company plan to keep this service indefinitely, or will you stop the service eventually and use your new number? If you will stop eventually, how long do you plan to use this service?

- Will always keep service 1 [486]
 Will stop service after one year..... 2
 Will stop service after two years..... 3
 Will stop service after three years 4
 Will stop service after more than three years.... 5

Thank you for participating in this survey! Please be sure that you have answered all of the questions put it in the enclosed, self-addressed return envelop and drop it in the mail. We would like to have all surveys back within the next week.

DICTIONARY OF TERMS

INFORMATION BOOKLET

Conducted by:

CONSTAT, INC.
450 Sansome Street, Suite 1100
San Francisco, CA 94111

THE THREE TYPES OF BASIC TELEPHONE SERVICE

This survey will require you to distinguish between the three different types of basic telephone service: **long distance, toll** and **local** service.

Local phone service..... = The local calls your company makes, for example across the street. It also includes the line charges that you pay per month per telephone line. This service is generally provided by local phone companies like Pacific Bell and GTE.

Long distance service..... = Calls made across the state, for example from Los Angeles to San Francisco, out of California or out of the country. These calls usually are provided by companies like AT&T, MCI and Sprint.

Toll calls = Also called "service area" or "local long distance" calls. Calls within California which are further away than local calls but not as far away as long distance calls, and usually include a per minute charge. This service is traditionally provided by local telephone companies such as Pacific Bell and GTE.

Beginning in January 1995, telecommunications companies like AT&T, MCI and Sprint will also be able to carry these calls.

THE COMPANY

This is the company that would provide your **local and toll** service. When competition occurs, many different companies will offer these services. For this study, there are two different types of companies:

- Your current long distance company.....=** The company who currently provides your long distance service
- A telecommunications company other=** An existing or new telecommunications company that you do not currently use for long distance service. This could be a major long distance company or another company (e.g., a toll company or telemanagement company).

THE SERVICES PROVIDED

Different companies would be able to provide different types of service. These services would be:

- Local and toll service=** The company would provide all of the services you currently get from your current local telephone company – telephone lines, local calls, toll calls, Centrex, call waiting, etc. It does not include long distance, 800 numbers, Yellow Pages ads or special data lines or services.
- Local, toll and long distance service.....=** The company would provide all of the services you currently get from your current local telephone company, as well as your long distance service.

THE COST OF LOCAL AND TOLL SERVICE

This cost includes all of the services you currently get from your current local telephone company – telephone lines, local calls, toll calls, Centrex, call waiting, etc. It does not include long distance, 800 numbers, Yellow Pages ads or special data lines or services.

- Same as your current local=** The company's rates for local and toll service would always be the same as your current local telephone company's. If your current local telephone company dropped its prices, the company would always match that price.
- 5% less=** The company's rates for local and toll service would always be 5% (or 15% or 25%) less than your current local telephone company's. If your current local telephone company dropped its prices, the company's prices would also drop.
- 15% less**
- 25% less**

THE IMPACT ON YOUR TELEPHONE SYSTEM

If you switched companies, your telephone lines and their telephone numbers might be affected . The possible impacts are as follows:

The telephone numbers remain the same= You keep your numbers if you choose to switch to on any lines that you switch. a new company.

OR

The telephone numbers change on any= If you switch lines to a different company, those lines that you switch. Main/published telephone numbers change. If you decide to switch numbers get an announcement for 1 year. your main or published numbers, when someone calls your old published number, they hear a standard referral message. The announcement lasts for one year. After that time, you can extend it for \$15.00 per month per number.

OR

The telephone numbers change on any= Same as above, only the announcement lasts for lines that you switch. Main/published two years. After that time, you can extend it for numbers get an announcement for 2 years. \$15.00 per month per number.

OR

The telephone numbers change on any= If you switch lines to a different company, those lines that you switch. Main/published telephone numbers change. If you decide to switch numbers get an announcement with transfer for 1 year. your main/published numbers, when someone calls the old number, they hear a standard referral message and are automatically transferred to your new number. The transfer and announcement lasts for one year. After that time, you can extend it for \$18.00 per month per number.

OR

The telephone numbers change on any= Same as above, only the announcement and lines that you switch. Main/published transfer lasts for two years. After that time, you can numbers get an announcement with transfer for 2 years. extend it for \$18.00 per month per number.



Pacific Bell

**Analysis of Potential Local
Access Competition and
Interconnection Issues**

– Residence Market –

Final Report

Prepared for:
Pacific Bell
San Ramon, CA

Prepared by:
ConStat, Inc
San Francisco, CA

May, 1995



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Background

Over the past several years, many changes and developments have been occurring in the telecommunications industry, from technological advances to regulatory changes. One of the most significant regulatory changes facing Pacific Bell is the advent of intraLATA and local competition. Although Pacific Bell has been the sole provider of local exchange telephone service in California since divestiture in the early 1980's, new regulations will soon allow other companies to provide intraLATA and local service to customers. The California Public Utilities Commission (CPUC) is currently drafting and reviewing several decisions on the regulatory structure required to enable open competition within the service area.

Pacific Bell's new competitors are likely to consist of Competitive Access Providers (CAPs), Interexchange Carriers (IECs), cable companies and other communications providers. However, these potential competitors have voiced concerns to the CPUC that Pacific Bell, as the current exclusive provider of local exchanges services, will have unfair advantages in this arena.

With the existing technology, customers will be required to change their telephone number if they choose to use a different provider for local exchange services. Given this, the new competitors claim that Pacific Bell will be able to retain an unfair portion of the market because customers will not want to change their telephone numbers. Although number portability (the ability to retain a telephone number regardless of the provider) would eliminate this problem, the technology is not as yet developed. However, there are several interim solutions that may allow customers to retain the same telephone number with a new service provider.

To better understand the issues involved with providing number portability, Pacific Bell wanted to explore the value of number retention (versus the ability to choose a preferred provider and specific incentives to switch providers) and determine the effectiveness of the interim number portability solutions among residence customers. The Marketing Research Group at Pacific Bell asked ConStat, Inc. to develop a research study that would fully investigate the issues involved. The following report reviews the results of this study among Pacific Bell's residence customers.



Purpose and Objectives

There were three major elements of this project that, of themselves, are individual areas of study with unique issues for exploration. These areas are: (1) the value of an existing telephone number to incumbent customers, (2) the relative influence of possible incentives to switch to a different provider relative to maintaining an existing telephone number, and (3) the effectiveness of different technological solutions to number portability. Although some of the specific objectives of this study were pertinent to Pacific Bell's market position if local telephone competition were to occur, this study was not designed to be a competitive analysis of the local telephone market after other access providers are allowed.

The specific objectives of this research, as they relate to the major areas of study, were as follows:

Value of Telephone Numbers:

- Determine the value residences place on their telephone number(s) and identify the factors which create that value;
- Explore the problems and concerns that are perceived to be related to changing telephone numbers and how these problems contribute to the value of the number;
- Determine how "telephone number value" differs based on certain residence characteristics.

Incentives to Switch to a Different Provider:

- Assess the likelihood of switching to a different provider given the current "playing field";
- Develop an inventory of incentives that are likely to influence residence customers when deciding whether to switch local exchange services;
- Investigate the strength and influence of the specific incentives that might be offered by Pacific Bell or competing carriers;
- Determine whether these incentives, of themselves, outweigh the problems associated with changing telephone numbers.



Purpose and Objectives

Different Technological Solutions to Number Portability:

- Explore customer suggestions for solutions to changing a number;
- Assess what characteristics the solutions must have and identify the "least common denominator" among the solutions;
- Evaluate reactions to the specific interim solutions to number portability;
- Determine the benefits and limitations of each solution and gauge its effectiveness in overcoming the problems associated with changing numbers.

Interrelationships between these Elements:

- Evaluate what incentives and/or solutions are necessary to overcome the cost of changing a telephone number;
- Determine to what extent different incentive/solution scenarios will encourage customers to change service providers;
- Explore how the likelihood of switching providers and telephone number varies by different residence characteristics;
- Identify best and worst case scenarios, plus the impact of alternative strategies available to Pacific Bell.



Methodology - Overview

This research study was conducted in two phases, a qualitative phase in the form of focus groups, followed by a quantitative phase.

The initial focus groups provided an arena to examine the issues surrounding the study's objectives in depth (e.g., the concerns that are perceived to be related to changing telephone numbers). The qualitative phase also provided an opportunity to "flush out" the main issues related to switching a telephone number and to learn the terminology residence customers use to describe telecommunications services.

The findings from the qualitative phase provided additional direction for the quantitative research. Specifically, the qualitative results were used to refine the survey design and ensure the research instrument addressed all issues salient to respondents in a language they would understand.

The specific methodologies for each phase are outlined on the following pages.



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.



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:

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

* 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:

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 <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.



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