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May 14, 2004

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, DC 20554

***Re: CC Dkt. 99-273, Provision of Directory Listing Information***

Dear Ms. Dortch,

On May 14, the undersigned of BellSouth, Cronan O'Connell of Qwest, Leslie Owsley of Verizon, and Toni Acton of SBC met with Jason Williams of Commissioner Martin's office. The purpose of the meeting was to discuss the state of competition in the U.S. retail directory assistance market and the impact of recent changes in the European directory assistance market. All material provided is attached.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions regarding this filing please do not hesitate to contact me.

Sincerely,

Mary L. Henze

Mary L. Henze

cc: J. Williams

# Competition in the Retail Directory Assistance Market

## 1. U.S. Directory Assistance Market is Highly Competitive

- Customers have multiple sources for DA
  - Phone books
  - Alternate dialing providers
  - Multiple wireline carriers ( ILEC, CLEC, IXC)
  - Internet-based, searchable directories (too numerous to list)
  - Wireless DA

    - Wireless phones will soon exceed wireline phones

    - Wireless DA revenues are projected to exceed wireline DA revenues in 2004
  - VoIP services are emerging quickly and offer DA-like services
- The US retail wireline local directory assistance (DA) services market generated $2.12 billion in revenues in 2000... its growth rate is steadily declining." (*Source: Frost & Sullivan, #6050-63, pg 40 (rounded, year 2003))*
- LEC call volumes have decreased 50-60% since 1995

## 2. U.S. Directory Assistance is High Quality and Reasonably Priced

- 90% of all calls placed to DA in the US result in a fulfilled customer; database accuracy is between 94.3% and 96.7% (*Source: The Paisley Group, FCC ExParte, February 21, 2003)*
- The average price for a wireline local DA residence call is less than $.43; average for residential call when call allowances factored in is only $.23.

## 3. Recent European DA Changes are not Model for U.S.

- Europe is striving to provide what already exists in the U.S.: choice and quality
- Result of introducing DA competition via regulatory means has been very mixed
  - "The lessons from deregulated Europe are clear," the Zelos Group states, "prices will go up, not down. Quality and customer satisfaction will take a hit." (Source: The Regulator's Dilemma: Competitive DA in UK Backfires, Zelos Group, 2/20/2003)
  - In UK, the average cost per DA call increased by 30 percent after the introduction of competition.

**4. 411 Presubscription would be Extremely Costly**

- Estimated cost to implement presubscription industry-wide is $800 million - $1.2 billion
    - Who would pay? All consumers even though many do not use DA?
- Additonal costs of customer confusion and inconvenience
    - How many consumers would care to presubscribe?
      - 80% of consumers use DA infrequently or not at all
      - Average expenditure on DA per month is about $1.00
    - New potential for cramming and slamming
- Additional Regulatory Costs
    - State regulatory requirements should apply to non-telcom 411 providers
      - Allowances/exemptions (who would provide? who would enforce?)
      - Required answer times

**5. No Regulatory Action Needed in US Directory Assistance Market**

- Consumers are not demanding change
- DA is competitive, robust & innovative
- Quality is exceptional
- Presubscription is costly
- Potential costs of changing 411 far outweigh presumed benefits
- Market dynamics should be allowed to prevail

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HD **Why Britain Has 57 Ways to Get The Wrong Number --- Bid for Competition Unleashes Wave of Misinformation; Hanging Up for a Bonus**

BY By Steve Stecklow

WC 1,181 words

PD 24 October 2003

SN The Wall Street Journal

SC J

PG A1

LA English

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LP LONDON -- For 47 years, telephone callers in Britain dialed 192 to reach directory assistance. In August, in a bid to drum up competition, regulators disconnected the number.

Today, Britain has become the world capital of telephone misinformation. At least 57 six-digit phone numbers now offer national directory assistance, and wrong numbers are rife. The charges are so complicated it takes a calculator to figure out the best deal. Two companies in a marketing war have been fined for misleading ads. One of them fired staffers after discovering they were hanging up on customers to qualify for bonuses.

TD "It's a bloody mess," says Martin Ashfield, managing director of Performance House Ltd. His company, which analyzes performance issues, tested the new services, which all begin with the numbers 118, for accuracy and gave only three of them perfect scores.

Mimie Darwish, managing director of Trans Europe Enterprises Ltd., an exporter of janitorial supplies here, says that both times she has tried the new services she got wrong numbers: "They were asking me how to spell names of towns, they asked me whether Gloucestershire was in London and, even when I gave them the street name, they still couldn't come up with the phone number." (Gloucestershire is a county about 100 miles northwest of London.)

Even worse, she says, she has been getting calls from people trying to reach companies with names similar to hers, including a freight company and an automobile importer. The problem, she says, is that telephone operators apparently type in just the first few letters of a company's name and then direct the caller to the first name that pops up.

Her opinion of the new services? "A disaster," she says.

About 20 companies are in the business. Some charge a flat fee; some charge by the minute; some charge an initial fee and then by the minute.

A recent independent study found that the average cost of a call is now 75 cents -- more than 10% higher than the old flat rate charged by BT Group PLC, which had a monopoly on the 192 service. Still in the business but competing with all the others, BT itself no longer charges a flat rate.

British regulators concede the new competitive environment is experiencing "teething problems" -- including a 45% drop in requests -- and say they are conducting their own "mystery shopper" tests to measure reliability. They predict the problems largely will disappear in the next six to 12 months as the marketplace weeds out poor providers. "I think what we have here is a world-class" service, says David Edmonds, director general of telecommunications at the Office of Telecommunications (known as Oftel), Britain's regulatory agency. "We're going through an interesting period."

Many other countries have run into trouble introducing competition to directory assistance. Germany failed to ensure that only directory-assistance companies could obtain numbers beginning with 118. Callers soon discovered that some of the 118 numbers offered a different kind of assistance -- live adult chat lines.

In the U.S., competition grew after local phone companies were required to share their directory data in 1996. While some U.S. consumers have griped about getting wrong numbers and finicky voice-recognition systems, the Federal Communications Commission says complaints about inaccurate information have dropped since then.

In Britain, regulators decided to end BT's monopoly on directory assistance two years ago. One reason: to stem a steady decline in calls lost to free online services. Eventually, about 80 companies expressed interest in the $468 million annual market, Europe's largest. Oftel, lacking legal authority to conduct an auction, held a lottery and gave away about 300 six-digit numbers that start with 118. The company that got the easy-to-remember number 118 118, turned around and sold it for $3.3 million.


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Last December, during a phase-in period, the new providers launched their services, while BT continued to operate 192. In August, 192 was switched off.

By then, some problems had already cropped up. In preparation for the end of 192, BT ran full-page newspaper ads under the heading "Public Notice" and declaring that "the old 192 number will be replaced by: 118 500," BT's new number. It didn't mention all the other providers and all their other numbers.

A new competitor called The Number UK Ltd., a unit of Infonxx, a privately held Pennsylvania directory-assistance provider, quickly responded with a parody of BT's ad. Under the heading, "Public Notice," it stated 192 was being replaced with a "radical" new concept, "being helpful." It offered its number: 118 118.

Both companies were fined $16,700 for misleading advertising. Jon Carter, a spokesman for BT, said the company accepts the decision but adds, "We're obviously going to push the envelope to try to get our message out there." Joshua Van Raalte, a spokesman for The Number, which is also paying the fine, says his company's ad was meant to be "tongue-in-cheek."

In September, the Mail on Sunday, a British tabloid, reported the findings of an undercover reporter who had gone to work at The Number, which through a clever ad campaign -- featuring twin marathon runners whose uniforms each carry the number 118 -- has quickly emerged as Britain's leading provider. He reported that operators were encouraged "to get rid of callers as quickly as possible" to qualify for cash bonuses. "As a result, wrong numbers are routinely given out, sometimes deliberately," the newspaper reported.

Regulators demanded an explanation, and the company responded by firing 30 of its 2,000-odd employees. "We're actually looking at a new bonus scheme," says Mr. Van Raalte.

All of this has drawn the attention of the House of Commons, which is expected soon to question Oftel officials on the reported problems of the new 118 services. Members won't have to look far for evidence. The office of John Mann, a member of Parliament, received more than two dozen calls asking whether it could deliver packages to Europe and Africa, says office manager John Curry. Those who phoned had called directory assistance seeking a number for John Mann International, a British trucking company.

Mr. Curry says several of the callers said they had been given the wrong number by The Number.

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Mr. Van Raalte says his company isn't certain it was the source of the wrong numbers. He also questions the accuracy of the Performance House study that found callers to 118 118 had only a 64% chance of getting the correct information. He says the company's internal studies show its accuracy rate at between 85% and 90%.

Maybe so, but The Number has a ways to go. A Wall Street Journal reporter this week called 118 118 and asked the operator for the main number of The Number's headquarters in Cardiff. She produced the correct number -- on the third try.

**IN** i7902: Telecommunications | i3303: Networking | i7902101: Local Telephone Services | i3302: Computers/Electronics | i79021: Wired Telecommunications Services | icomp: Computing

**NS** c31: Marketing | ccat: Corporate/Industrial News | gcon: Consumer Affairs | gvbod: Government Bodies | npag: Page-One Story | gcat: Political/General News | gpol: Domestic Politics | ncat: Content Types

**RE** eecz: European Union Countries | uk: United Kingdom | eurz: European Countries | weurz: Western European Countries

**IPC** DJCB | IGV | UKGV | NND | TEC | UTI | AHD | PGO

**PUB** Dow Jones & Company

**AN** Document J000000020031024dzao00009

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## The UK Experience

**Sharp rise in complaints after 192 switch-off, BBCNews, October 8, 2003**

- "The Independent Committee for the Supervision of Standards of Telephone Information Services, the regulator of premium-rate calls which oversees directory inquiries providers, has received more than 200 consumer complaints since 192 was switched off, double typical numbers for this time of year."
- "The revelations are yet more bad news for a deregulation process that has been plagued with controversy, with consumers complaining about unclear charges, poor service and a confusing array of new providers. "
- "The problems experienced by customers appear to have been both varied and widespread. The Number, the most aggressive of the new entrants, last week met regulators to discuss claims that some of its call centre staff had hung up on customers or callers had been given wrong numbers."
- "The case is embarrassing for the regulators, which have staked their reputation on the success of the new regime. "

http://news.ft.com/servlet/ContentServer?pagename=FT.com/StoryFT/FullStory&c=StoryFT&cid=1059480418731

**UK regulator faces grilling over wrong numbers, BBCNews, October 5, 2003**

- "A full investigation has not been ruled out by the trade and industry select committee if it decides there are systemic problems that Oftel is failing to tackle."
- "Roger Berry, a Labour committee member, said Oftel would be "rigorously" cross-examined on the "appalling" 118 allegations when it gives evidence on broadband issues to the committee on November 11."
- "MPs are to grill Oftel, the telecommunications watchdog, next month on its low-key regulatory response…

http://news.ft.com/servlet/ContentServer?pagename=FT.com/StoryFT/FullStory&c=StoryFT&cid=1059480347876&p=1028185788245

**'It is a rip-off and will cause untold chaos'**
**Who is to blame for the post-192 muddle?**
*The Guardian, 8/26/03*

- "Competition is welcome if it offers genuine choice and lowers prices, but this new system is a rip-off which will cause untold chaos. "

  Daily Express Editorial, August 25

- "Hours after the abolition of the old directory inquiries number, people have started to swap stories of inept operators, dud information and hidden charges. "

  Daily Telegraph Editorial, August 25

- "Take the directory inquiries fiasco ... Yes, Mr Blair may claim that under privatisation, this unwanted, baffling, costly absurdity is nothing to do with him. But

he appointed the Oftel regulator who is foisting the new system on Britain. Moreover, directory inquiries are indisputably an important public service. So can he really duck responsibility?"

Daily Mail Editorial, August 23

- "Since there is a clear advantage to having a single number to call for assistance, the case for abandoning it would have to be strong. Unfortunately, Oftel's scheme is flawed in principle and in practice. Competition, which usually brings down prices, improves quality and encourages innovation, does not produce these benefits by magic. If it is to work, consumers must find it easy, or at least worthwhile, to compare price and quality ..."

Financial Times Editorial, August 23

http://www.guardian.co.uk/editor/story/0,12900,1029141,00.html

**Down the Line, It Will All Be Forgotten**
**By Peter Jackson ,28 August 2003**

I would have thought that a change in the numbers we must dial for a directory enquiries service might excite the slightly odd-ball, the anorak, the type who does not get out much - but nobody else.
Personally, I doubt whether I use Directory Enquiries above twice a year and so I don't care very much, as I observed to my wife, who does seem irritated by the new numbers. "Precisely," she countered, "It's because you use it so rarely that you won't be able to remember the new number." (Which supports the fact that expensive advertising will need to be done on a continual basis.)

She may have a point but I'm not entirely convinced, I think the reason for all the national interest is subtler, more psychological than that. I believe that telephones, in all their many shapes and sizes, have - as I have written before - become so central to our lives that any change in the way they operate or the services available through them excites tremendous interest.

In this case it has been overdone. I suspect such directory enquiry services will dwindle in importance and that in a few years the new companies will not be making anything like the £300m BT made from the service last year. **This is because people will find it easier and cheaper to find numbers on the internet.**

And how will they access the worldwide web to do so?...Through their mobile telephones, of course.
http://search.ft.com/search/article.html?id=030829000199&query=Oftel&vsc_appId=totalSearch&state=Form (may require registration)

**Directory Enquiry Calls Halve Amid Deregulation**
**By Robert Budden, Financial Times, Telecommunications Correspondent**
**Last Updated: September 16 2003**

- "Calls to [BT's] directory enquiries services have fallen by almost half since the market was deregulated last month, indicating that consumers have been confused by

the wide diversity of suppliers or put off by the high charges of some of the new service providers."

- "In figures released on Tuesday, BT Group said calls from its lines - which account for the majority of all calls - to the full array of new 118 numbers were 45 per cent down on calls to the old 192 number over the same period last year. BT attributed the sharp decline to the recent regulatory changes, which it said had resulted in 'consumer confusion and concerns about price and quality'."

- "Deregulation of directory enquiry services, which was supposed to benefit consumers, appears to have had the opposite effect," said Pierre Danon, chief executive of BT Retail, the telecoms operator's fixed line arm. "The overall sector has contracted and callers are getting an inferior service from new operators."

- "But Oftel, the telecoms regulator which initiated the new directory enquiries regime, said it was too early to deem the change a failure insisting that many consumers may have been making greater use of web-based directory enquiry alternatives."

http://news.ft.com/servlet/ContentServer?pagename=FT.com/StoryFT/FullStory&c=StoryFT&cid=1059479878122 (may require registration).

**Oftel accused of 192 fiasco, BBCNews, September 5, 2003**

- "Oftel had predicted that about 75,000 calls a day would be made to the new entrants through the redirection service," he said.
  "In fact the actual redirect numbers are more like 5,000 a day."

- "Misjudgement of the amount of business has already lead to hundreds of job losses at Conduit (118888) in Wales and England and Teletech in Northern Ireland."

http://news.bbc.co.uk/1/hi/business/3084412.stm

**Firm grows to tackle enquiries, BBCNews, March, 2003**

- "However, recent research has predicted a third of all call centres in the UK would close in the next two-and-a-half years, with the loss of 90,000 jobs."
- "Managing director of Mitial Research, Mike Allen, said the lower end of the call centre market would move offshore."

http://news.bbc.co.uk/1/hi/wales/2884807.stm

**Which 118 has got your number?, , BBCNews, Sarah Toyne, August 22, 2003**

- "Not all the directory enquiries services are the same, and while some may appear expensive, when it comes to the world of 118, not all is what it seems.
  For example, dialling The Number's 118118 national service might be quite expensive..."

http://news.bbc.co.uk/1/hi/business/3161033.stm

**Teething trouble: Your 118 stories, , BBCNews, August 22, 2003**

- "I have found it so confusing to find which is the cheaper service, that now I just go on the net, and look at directory enquiries there. "
  **Rob, England**
- "Electricity, gas, mobile phones, land line phones and now directory enquiries: Yet another wilfully complex and confusing way of fooling the punter into paying out more than he needs to for a basic service. A cynical marketing ploy, and the customer can only lose out. "
  **Di, UK**

- "This is such a waste of time and energy. I don't know anyone who thinks 192 needed to be replaced and now we have an un-needed and bewildering array of numbers to "choose" from. What is the point? "
  **Chris, UK**
- "Are these changes called "Progress" ? "
  **Steve Bowen, UK**
- "Life is a race - majority caused by technology - oh to have one number that we can all remember that just makes our lives easier!! But that's not the case as from this weekend!!! Someone is trying to 'do our heads in'!!! "
  **Moira Langford, UK**
- "I stopped using directory enquiries long ago - I now use the on-line enquiries which usually gives me a quicker response. "
  **John R, UK**
- "The UK is a small island which amongst other things it cannot produce is a simple telephone number! "
  **Roy Barratt, UK**
- "Try explaining that to a tourist who is in the UK for a couple of days and needs to find a phone number. "
  **Richard Siddall, USA**
- "I'm having lots of fun phoning directory enquiries and asking for the number for...directory enquiries "
  **Jack, UK**
- "I called 118800 for a number for Micheldever tyres. Despite eventually having to spell this out phonetically, the operator took 3 min 45 seconds to give me the number (total cost nearly 80p) - I will never use them again! I'd have been better to use my Orange mobile at 49p - never had a problem with them to date. "
  **Martin Berwick, England**
- "I called one of these 118 numbers, asked for my optician and was asked if I wished the operator to connect me to them. Immediately being suspcicious of the charge this would incurr, I said "no". Despite this however, there was a click, ringing tone, and the operator had connected me regardless. These companies know that most of us will not be able to follow up such complaints. I wouldn't know who to complain to, and it would probably take a campaign of letter writing and research. "
  **Simon Watkins, Wales**

http://news.bbc.co.uk/1/hi/business/3174225.stm

- **Who passed the 118 challenge?, BBCNews, August 29, 2003**
  "While competition can be good for consumers, navigating the range of service for 118 customers is not a simple bargain hunt. "
- "The cheapest services, according to the cost of the first minute are Double One Double Eight Double Eight and Directory Enquiries UK, but these two companies took the longest to find the numbers."
- "With Directory Enquiries UK, the gimmick of speaking to someone thousands of miles away, a soft foreign accent, the willing and friendly manner was the consolation prize for the four minutes and forty seconds it took to locate the numbers..."
- "One of the big bug bears of the new service is how much it costs to have the call put through - up to 40p a minute in some cases. ..."
- "Another gripe that readers have been e-mailing about is the speed it takes to pick up the call. "
- "It took 46 seconds, a message explaining "your call is important to us" and a jingle, before a telephonist came on the line with Directory Enquiries UK."
- "Again, perhaps because that is because one was talking to a call centre thousands of miles away."

http://news.bbc.co.uk/1/hi/business/3189101.stm

**Put them on hold, Ros Coward ,August 27, 2003**
The Guardian

- "Until now BT's directory inquiries was, like British Rail before deregulation, a unified service, albeit a private monopoly. Just like BR, it didn't always deliver the sharpest performance, and, at 48p a shot, was overpriced. But at least this incredibly minor area of life did not require intellectual energy. Now, for the simplest act of finding a phone number from a finite list, we are faced with a hotchpotch of different companies, all charging different amounts, all applying different conditions. "
- "As with all pointless privatisations, the main effect is confused consumers. Most people are still frankly baffled by the bizarre adverts. Naively, we still think advertising is about selling us something we might want, rather than some utterly pointless change that we don't..."
- "We've been here before with rail privatisation. ..."
- "Access to telephone numbers may not seem like a big issue - it's hardly food and water - but in an information society they are necessities. Like transport, this service isn't an end in itself. People don't want phone numbers for their own sake. We want them in order to make a phone call, just like trains are to get where we want to go. This is a prerequisite service for doing what we really want to do, and a prerequisite service is not the place to expend yet more mental energy in an already massively overcomplicated society. These are the services which require efficiency, a fair deal and availability to everyone at the same rate - in short, the fundamental enabling principles of good public service. "

http://politics.guardian.co.uk/columnist/story/0,9321,1029830,00.html

**The Filipinos who've got your number..for a paltry Pounds 26 a week ,** Simon Parry in Manila The Sun, ***1 September 2003.***

- "The Sun tracked down The Number's overseas operation a week after we told how the firm's UK call centre in Cardiff is struggling to cope due to staff shortages, training problems and a huge workload."
- "Manila employees have been inundated with UK callers since the 192 service was scrapped last week. The Number charge 49p plus 9p per minute on a BT line."
- "Calls are routed to the **Philippines** when the 1,000 UK workers, who earn Pounds 6.15 an hour, cannot manage."
- "The graveyard shift is essential to deal with UK callers because the seven-hour time difference means our afternoon is the middle of their night."
- "Overstretched Filipino staff of The Number's 118 118 service work gruelling nine-hour shifts for just Pounds 26 a week."
- "Staff in Manila begin work at 8pm and continue until 5am with just a one hour meal break -unpaid."
- "And they are ordered to watch James Bond and Harry Potter movies to improve their English."
- "Most of the mainly female workers at the call centre 7,000 miles away in crime-ridden Manila are fresh from university."
- "Most staff live in some of Manila's poorest suburbs where kidnappings and car-jackings are rife."
- "The 800 operators struggle to understand British accents and do not know how to spell our towns."
- "The centre -on the 11th and 14th floors of one of Manila's newest office buildings -is patrolled by armed guards. All workers and visitors are body-searched."
- "New recruits have to work 90 minutes to earn enough cash to buy a Starbucks cup of coffee."
- "Staff in Manila are paid a starting salary of Pounds 115 per month rising to Pounds 150 for senior staff."
- "They also list American expressions -they deal with American enquiries too and their English equivalents."
- "US call centre group Infonxx, which owns The Number, warns employees they face 'serious disciplinary action up to and including termination' if they are caught speaking Tagalog in the locker area, training rooms or toilets."
- "A 32-page manual for new staff lays down the company's rules including advice on what to wear to work, right down to underwear."
- "Workers are only allowed a maximum of three days off if their husband, wife or child dies and they must take it as unpaid leave or holiday."

www.thesun.co.uk (subscription may be needed)

ZelosGroup

# The Regulator's Dilemma: Competitive DA in UK Backfires

*The U.K.'s experience with competitive DA has officially reached "debacle" status. The repercussions will be global in nature as DA providers in other markets calibrate efforts to market enhancements to gain market entry and acceptance. As callers opt out of dialup DA offerings, Web, wireless and IP-based providers should capture new customers.*

February 20, 2003

Author

Mark Plakias

Six months after switching to the new 118 XXX format and closing the old 192 number, an event preceded by three months of "parallel running" whereby both formats were allowed to co-exist, it appears that the market did not cross the chasm, and has largely fallen into it instead. In this advisory, which precedes our deeper analysis in a formal report, Zelos Group examines both sides of the story in what is fast emerging as a transition from a monopoly fostering a modestly growing cash cow to a duopoly presiding over a shrinking market. Apart from the massive finger-pointing going on, it is a story of a perfect storm that saw widespread negative media coverage, bad consumer communications, and missteps in execution driven by aggressive and unpredictable competitive thrusts.

Crossing the Chasm. Regulators seeking to introduce innovation and price competition face a version of Gordon Moore's well-known 'Crossing the Chasm' - they too have to move from a well-established, profitable scheme to confront challenges generated by a set of disruptive market entrants. The widely-heralded UK directory assistance market deregulation was the subject of a competitive shake-up by Oftel (now known as Ofcom), the equivalent of the FCC in the UK. Our attention to the effort flows from the fact that the UK is one of the largest DA opportunities outside of the U.S. - estimates of the market pre-deregulation ranged from 700 million (BT's estimate) to one billion calls annually.

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**"The Collapse" has its casualties.** In a recent presentation at the EDM 04 Conference in London, BT Directories Chief Executive Paul Elliottt summed up the result of the process in these words: "Six months on, quality is poorer, prices are higher, call volumes are lower, and people have lost jobs." He could have added that the process produced tremendous clutter. There are now over 150 active 118 XXX numbers, but only one significant competitor to BT. That would be The Number offered by INFONXX. It is widely credited with 40-50 percent market share, while BT retains most of the rest. This is emphatic confirmation of the theory that deregulation of a consolidating market results in two or three strong competitors at most, a reality also borne out in Germany, where the incumbent Telekom and insurgent Telegate carved up 95 percent of a shrinking market.

*"Six months on, quality is poorer, prices are higher, call volumes are lower, and people have lost jobs."*
-Paul Elliott
*BT Directories*

In the UK, Elliott was referring to the fact that the market has collapsed - a term BT presenters used repeatedly in describing the situation - by 50 percent. In the process, the future of at least one casualty, one-time high-flyer Conduit, darkened with the announcement by Telegate, its German-based competitor for both wholesale and retail business in several EMEA markets, that it would not seek to acquire the now-stricken Irish company. Additionally, another competitive player, THUS, announced it was out of the market.

**Callers show no patience.** In the Dubious Distinctions Department, the average Briton has gone from an attitude that best compares to humoring a slightly dotty old auntie, as they regarded the old 192 service, to one that is unforgiving toward a seriously damaged service. BT executives now probably pine for the days when 20 percent of the UK population thought DA was free - thanks to intense media coverage, less than 5 percent of the populace operates under that misconception and the decline in call volumes proves it.

Based on survey data, UK research firm, Performance House, determined that in the first quarter of 2004, 49 percent of users say the new 118 scheme is worse than 192. A large component in that figure is the perception of poor quality. One out of four respondents reported being handled by offshore agents and 80 percent of them assessed the quality

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as worse than UK-handled calls. In test calls conducted by us this month, we found BT's 118 500 operators still required a specific address before providing a residential listing. While we heard different estimates of success rates at EDM, none of them ranged above the 73 percent Performance House measured.

*In the most damaging assessment of the Ofcom scheme to deliver consumer benefits, average cost per call is now 30 percent higher than pre-competition.*

**Uncertainty over pricing is a negative factor.** As for rationalizing pricing, Ofcom's decision to allow flexible pricing arrangements (per call, per minute, and blended) has led to 88 percent of respondents saying they still don't know DA call costs. It is no surprise then that 55 percent of respondents say they use 118 less than 192. In the most damaging assessment of the Ofcom scheme to deliver consumer benefits, average cost per call is now 30 percent higher than pre-competition.

**BT's View: It Wasn't Broken.** In a scathing appraisal of the process, BT Directories chief Paul Elliott cited three negative outcomes of the Ofcom scheme:

- huge reduction in customer satisfaction (assessed by Performance House at 50 percent Very, 36 percent Somewhat, 13 percent Unsatisfied);
- increased prices as a result of unplanned and unproductive advertising outlays that cost the UK DA industry $50-70 million, spent in a void of any formal consumer communications program from Ofcom; and
- low take-rates for the new format, leading to a market 'collapse' of 50 percent.

*...the result of "fixing" DA in Britain, from BT's perspecitive is lower customer satisfaction resulting from lower quality, higher prices, and the seemingly inevitable result of plunging call volumes.*

Thus, the result of "fixing" DA in Britain, from BT's perspecitive is lower customer satisfaction resulting from lower quality, higher prices, and the seemingly inevitable result of plunging call volumes.

Elliott cited major the mistakes made by Ofcom as:

- the lack of a consumer education program (Ofcom did mount a website, www.newdirectoryenquiries.com) and compounding the omission by barring BT from using bill

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stuffers or phone books to communicate with customers about the change;

- putting no constraints on market entrants, with a resulting 300+ numbers given out to over 80 providers; and
- providing a carrier-neutral random announcement of new 118 service providers when calls dialed into the disconnected 192 number.

Elliott maintained that Ofcom's procedures removed any need for new entrants to be better than BT, and compounded the mistake by use announcements as a means of "shouting numbers" at increasingly-befuddled consumers.

*The implication was that radical change in the ecosystem would drive consumers elsewhere, while added marketing costs and share erosion would make already-tenuous margins much worse. That's pretty much what happened.*

**BT's post-mortem gives U.S. regulators pause to reflect.** It consists (perhaps predictably from an incumbent) of a "why fix it if it isn't broken?" thesis. Noting that the pre-competitive UK market was "highly-developed" - as evidenced by its high call volumes - Elliott reminded the audience that DA is a convenience-driven purchase that already has a wide array of substitution alternatives. With customer satisfaction high (a point some would take issue with), and prices low, the UK prior to competition was a $250 million market with gradually declining usage as Internet listings from both BT and independents ate up more and more volume.

Elliott's point - one that any incumbent in the same position would raise - was why change?

**Ofcom contends, "We Still Don't Know."** Ofcom reprentatives at EDM, flanked by content and consumer protection agency ICSTIS (think FTC, but just for telecom), put a brave face on things. Summing up the "learnings"as "people dislike change," Ofcom was clearly trying to resist reaching conclusions prematurely. Mystery shopper calls are definitely in vogue in the UK these days, and Ofcom is commissioning these test calls to determine what kind of user experience the fledgling 118 community is delivering. Defending its decisions as based on thorough benchmarking of other deregulated EMEA markets, Ofcom maintained that

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it was not breaking new ground, and that the rotating announcement approach had been used elsewhere.

Positing that "co-regulation" based on regular consultations with both BT and the competitive providers was in itself an accomplishment; Ofcom has several open issues on its plate. It appears to be stalling for time as it gathers more information from its mystery shopper calls. Service providers and BT found common cause in pushing Ofcom to require mobile carriers and CLECs to open networks to all 118 providers - currently only BT and another small incumbent are required to interconnect to all 118 providers. This keeps a huge chunk of the population - primarily wireless - out of the loop.

*If there is any winner in the UK debacle it is INFONXX, which appears to have added as much as $100 million in topline revenue in less than a year, for an outlay of $30 million.*

**Ofcom plans no specific action against underperformers.** More troubling, from any perspective, is the issue posed by plunging quality - as low as 30 percent success rates being reported in some quarters. Indeed, Performance House reported that tests using numbers in the standard OSIS listings database were showing 15 percent or more unfound. When asked if Ofcom/ICSTIS would take actions if they found providers consistently below acceptable quality levels, ICSTIS' Paul Whiteing allowed as he might - again, the answer is more mystery shopper calls.

**In a Duopoly, at least one player is happy.** If there is any winner in the UK debacle it is INFONXX, which appears to have added as much as $100 million in topline revenue in less than a year, for an outlay of $30 million. The Number, INFONXX's subsidiary in the UK operating 118 118, is a well-oiled brand, built by veteran marketers from Virgin and Orange, two companies that know a few things about challenging monopolies. The service offering is nothing revolutionary, but the advertising campaign is hip and amusing.

**A pattern is emerging for competitive DA.** As noted above, the deregulation of a flat-lined DA business leads to higher prices and a duopoly. At EDM several speakers noted that Germany has also ended up with higher prices and a

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duopoly - and that Germany's volume has declined by 45 percent over the past five years.

**The other lesson: competition does not lead to innovation.** With the focus on realigning pricing and sorting out the clutter of new brands and packaging, both BT and The Number indicated that trying to put enhanced services across was too much for befuddled consumers. Both providers are eager to try, and BT has, but both appear very reluctant to make further demands on agents or callers.

*Zelos Group's assessment is that the hit on innovation may be much heavier than anybody realizes now.*

**The well may be poisoned for innovative followers.** Zelos Group's assessment is that the hit on innovation may be much heavier than anybody realizes now. While, incredibly enough, two or three new providers enter the British market each week, we seriously question whether there is a future for major DA-related innovations, such as the addition of wireless listings. After what the British public has been through with 118, we have to ask what the confidence level will be for new services built on providing access to wireless listings, especially when anonymous prepaid users may be as much as 70 percent of the market. This illustrates the core of the Regulator's Dilemma - that future initiatives fall into the chasm pulled down by prior bad consumer experiences

The wireless listings example is useful for understanding what Zelos Group sees as a secular erosion of the DA market in advanced western countries outside the United States. Changes in industry structure and the introduction of new competitors seems to highlight deficiencies in the underlying service. Put simply, too small a percentage of phone users are in the directory database. The transition to mobiles as the primary line (much of that population using anonymous prepaid SIM cards), and the lack of wireless CNAM (Caller Name), are making huge chunks of the population disappear from view. Unpublished is easily 50 percent of the remaining fixed line population.

**Sophisticated callers know that DA is not the only source of listings.** They have as alternatives, Internet-based DA (both free some subscription based) and many are taking a "build your own" approach to collecting addresses

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and other contact information in their handsets. Competitive frameworks, such as the UK's, will exacerbate underlying negative issues, and do not provide a firm foundation for service providers. The added burden of marketing costs to launch and nourish brands, and a shift out of wholesale relationships that amortize these costs across (protected) retailers and their (hard-working) wholesale suppliers could, in our view, create similar havoc in a deregulated U.S. market.

*The lessons from deregulated Europe are clear: prices will go up, not down. Quality and customer satisfaction will take a hit. These are counterintuitive findings and run contrary to basic deregulation concepts about freedom of choice and the Darwinian effects of market forces.*

**Investment in DA is clearly needed.** In 2004 in the U.S. this investment will be in speech automation to reduce the cost of delivering 411 services, particularly in markets where local regulators have mandated free call allowances. While this is good news for voice recognition vendors and their system integrator partners, it does nothing to stem the loss of usable listings (and supporting services such as CNAM) as the U.S. makes a similar transition to wireless and Internet.

**Pricing and Automation Challenges Ahead.** The lessons from deregulated Europe are clear: prices will go up, not down. Quality and customer satisfaction will take a hit. These are counterintuitive findings and run contrary to basic deregulation concepts about freedom of choice and the Darwinian effects of market forces. Be that as it may, we believe based on the compelling evidence from Germany and the U.K. that they are real.

U.S. regulators are already starting to focus on the rising costs associated with retail 411 service, and the (predictable) teething problems associated with automated speech. Unfortunately, the short-term impulse will be to invite competition and allow market forces to curb these trends. We say "unfortunately" because it will in fact retard the innovation that automated speech can introduce in the form of network address books (NABs) that are deployed as part of voice dialing adjuncts to automated 411 services. The U.S. operator services community has a burgeoning opportunity to supplement cost-containment with speech recognition by adding voice dialing and NAB applications to the voice infrastructure now being built/hosted to support 411.

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The evidence from the EDM meeting in London is clear - automation is coming to DA operations around the world, and the opportunity for adding network address books that can integrate fixed and wireless numbers is becoming clearer. A final data point to support this scenario: BT's newest directory product is a Mobile Data Backup - a network address book.

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