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August 31, 2005

Via ECFS

Ms. Marlene H. Dortch  
Secretary  
Office of the Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

Re: *In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from AT&T Corp., Transferor, to SBC Communications Inc., Transferee, WC Docket No. 05-65 – REDACTED FOR PUBLIC INSPECTION*

Dear Ms. Dortch:

On May 9, 2005, SBC filed the Response of SBC Communications Inc. to Information and Document Request Dated April 18, 2005 (“Response”). With that submission, SBC provided, as Exhibits 3(d)(2) and 5(b)(4) in-progress versions of a study entitled “2004 Retail Data Market Share Report.” Since providing that Response, SBC has finalized that study. Transmitted with this *ex parte* letter is a copy of the final study report, submitted pursuant to the First and Second Protective Orders in this proceeding.<sup>1</sup> In connection with the submission of the final version of that report, SBC is also providing, at the request of Staff, disaggregated data from that report and other similar reports submitted with the Response concerning firms’ relative shares of medium and larger business customers as revealed by customer surveys.

SBC conducts or sponsors various surveys of business customers within its local exchange territory. Separate surveys are conducted periodically with respect to voice and data services. Separate surveys are also taken of business customers SBC classifies as “small”

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<sup>1</sup> *In re Applications of SBC Communications Inc. & AT&T Corp.*, WC Dkt No. 05-65, Order Adopting Second Protective Order, DA 05-1322 (WCB rel. May 9, 2005); *id.*, Order Adopting Protective Order, DA 05-635 (WCB rel. Mar. 10, 2005).

(similar to its so-called “Valued” customer segment), medium (similar to its so-called “Signature”), and large (similar to its so-called “Global” or “Enterprise”) customer segments.<sup>2</sup>

### **Survey Methodologies**

These surveys were conducted in the ordinary course of business and were designed to be adequate for providing decision-makers at SBC with information they would find useful in running the business generally. Although the surveys were not necessarily designed to provide a precise picture of the competitive landscape in any particular area with respect to every service SBC offers, they do contain data relevant to the Staff’s request. The specific methodologies employed reflect the purposes for which the surveys were performed.

The methodology used for the voice services surveys was the same in 2003 and 2004.<sup>3</sup> Telephone interviews were conducted with business customers spending more than \$500 per month at the surveyed location. Between 3,000 and 4,000 customers were surveyed each year. A stratified sample was used to assure an adequate number of large business customers were included, but the results as reported are weighted to represent the overall population of these customers (a population that is overwhelmingly in the medium business “Signature” segment, and not in the large business “Global” or “Enterprise” segment).<sup>4</sup>

The methodology used for the data services surveys was different in the two years.<sup>5</sup> In 2003, the survey was conducted by telephone. Businesses statewide were surveyed only in Connecticut. In SBC’s other regions, the survey was conducted only in certain specific metropolitan areas: Chicago, Detroit, and Cleveland in the Midwest; Los Angeles, San Diego, San Francisco, and Sacramento in the West; and Dallas, Houston, San Antonio, and St. Louis in

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<sup>2</sup> As explained in the Response (at pages 3-8), SBC generally categorizes businesses that are expected to spend less than \$7,000 per year with SBC as “Valued” customers; those expected to spend between \$7,000 and \$48,000 with SBC as “Signature” customers; and those expected to spend more than \$48,000 as “Enterprise” or “Global” customers.

Business customers in Nevada are generally not included in these surveys as SBC is the incumbent local exchange carrier in only a relatively small part of that state.

<sup>3</sup> The 2003 voice services survey was provided as Exhibit 5(b)(2) of the Response; the 2004 voice survey was Exhibit 5(b)(3).

<sup>4</sup> Given that SBC’s Signature customers outnumber its Global and Enterprise customers by about 9-to-1, the number of larger business customers surveyed in a given state without overweighting could be very small. For example, if 100 customers in a given state were surveyed, 10 or fewer larger business customers might be included.

<sup>5</sup> The 2003 data services survey was Exhibit 5(b)(1) of the Response.

the Southwest.<sup>6</sup> The metropolitan area results cannot necessarily be interpreted as providing accurate estimates of state-wide shares.

The businesses included in the 2003 data services survey each said they spent more than \$500 per month on voice and data services combined, and purchased at least one data service at the surveyed location. Interviews of 2,350 businesses were completed: 326 of them appeared to be what SBC categorizes as Enterprise businesses; 1,584 appeared to be Signature businesses; and 418 appeared to be smaller than Signature businesses (so-called Valued businesses). Thus, as with the voice surveys, larger businesses were oversampled. Aggregated results reflect weighting to more accurately reflect the population of qualifying businesses.

The 2004 data services survey was performed using a different methodology. Unlike the 2003 survey, this survey set quotas for spending level and probability of purchasing certain products, and encompassed SBC's entire local service area, not just specific metropolitan areas. Businesses were contacted and qualified by telephone, and those businesses that qualified were sent a written questionnaire. The 2004 data services survey was taken of 4,283 businesses that are similar to the SBC Signature and Enterprise segments – 3,303 Signature-like businesses and 980 Enterprise (or Global)-like businesses.<sup>7</sup> Again, larger businesses were oversampled; aggregated results reflect weighting to more accurately reflect the population of qualifying businesses.

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<sup>6</sup> About 80% of the St. Louis metropolitan survey results are from business customers in St. Louis, with the remainder from business customers surveyed in Kansas City, Missouri.

<sup>7</sup> For the purposes of this survey, businesses that (1) used a DS-1, T-1, frame relay, or PRI ISDN service and (2)(a) spent between \$7,000 and \$47,999 annually on total communications services or (b) have between 100 and 999 employees and have NAICS (industry code) of 52, 53, 54, or 62, were classified as Signature-like. Businesses that (1) spent more than \$48,000 annually on total communications services, or (2) had 1,000 employees or more and NAICS codes of 22, 32, 33, 42, 45, 48, 49, 51, 52, 53, 54 or 55, were classified as Enterprise-like.

Unlike SBC segments, the spending level in the above classifications includes the spending not only with SBC, but with all communications service providers. This means that these businesses could be classified in a SBC lower segment, because they spend only part of their communication dollars with SBC.

All business locations sampled were within SBC's incumbent local service area. Businesses located in the same state but outside of SBC's incumbent service area were not included.<sup>8</sup>

These surveys were conducted in the ordinary course of business and were designed to be adequate for providing decision-makers at SBC with information they would find useful in running the business generally; disaggregated data were not reported. Review of these disaggregated data, therefore, must consider several factors. First, the more data are disaggregated, the smaller the sample in each disaggregated group. Thus, although the results of these surveys may be meaningful in the aggregate, they may not be as meaningful when they are disaggregated, depending on sample size. For example, approximately 3,000 medium and large businesses located in SBC's local service area participated in SBC's 2003 voice products survey. Though that number allows for minimal sampling error, the sampling error is greater when data are disaggregated to a lower level.

Second, because some customers have locations in more than one state and some services are interstate or multi-state in nature, the assignment of business customers or the revenues they generate to a particular state is often not meaningful. This problem is particularly acute with respect to business data services for SBC's Enterprise and Global customers.

Third, not all businesses purchase all of the communications services SBC offers. The results of each survey, therefore, include the percentage of customers in that survey that purchase the service in question from any provider (the "penetration" or "take-rate" of that service). The number of surveyed customers purchasing various data services from any provider in some states may be very small. For example, as set forth above, in surveying 2004 retail data usage in its region, SBC surveyed over 3,300 Signature-like and nearly 1,000 Enterprise-like customers. While 32% of Enterprise-like customers said they used frame relay services, only 4% of Signature-like customers reported the same thing. As a result, even from the multi-thousand survey sample, the number of frame relay users amounted to only several hundred customers total. Dividing this relatively small sample on a statewide basis would not only suffer from the problem described above (*i.e.*, a large percentage of the frame relay users are multi-state in nature, and it is therefore impossible meaningfully to attribute their usage to one state), but also would result in very small sample sizes in most if not all of SBC's states. That problem would be particularly acute if one wished to distinguish between businesses of different sizes. Therefore, SBC is providing data that distinguishes Enterprise-like from Signature-like customers only at a regionwide level.

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<sup>8</sup> The data services survey asked some questions about data networks used by the respondent in any location, which could have included in-state, out-of-SBC local service areas.

Fourth, the differences set forth above with respect to the samples for the 2003 and 2004 data surveys should be noted. In particular, the 2003 data survey included respondents that SBC would classify as smaller (Valued) customers; the 2004 data survey did not. Results are reported by customer segment in both years for Signature-like, Enterprise-like, and total customers. In 2003, the total customer results include the Valued customers; the total results are not merely the weighted combination of the Signature-like and Enterprise-like customers.

Fifth, these data do not indicate the overall size or volume of services being purchased. For example, they do not reveal that the overall number of basic business lines being sold is declining.

### **Results Reported**

The disaggregated results of the surveys are provided in Excel spreadsheets and are submitted pursuant to the First (and, for the 2003 data survey results, the Second) Protective Order in this proceeding.

Following the approach set forth above, the following voice service shares are provided on a state-by-state basis for 2003 and 2004: (1) primary provider;<sup>9</sup> (2) basic business lines; (3) local voice services; (4) intraLATA voice services; and (5) interLATA voice services.<sup>10</sup> Where data are available, shares are reported separately based on different metrics: account share; unit share; and revenue share. The margin of error for each of SBC's reported shares is also provided at the 95% confidence interval.

For data services, shares in the following services are provided: (1) primary provider;<sup>11</sup> (2) DSL and cable modem broadband services; (3) retail T-1 and (4) retail Hi-Cap.<sup>12</sup> For some services, shares are reported separately based on account share and revenue share. As set forth above, where sample sizes for a given service are small in most areas because of lower

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<sup>9</sup> This tabulation reports the responses to a question asking the respondent to identify its primary provider of voice communications services at the location being surveyed.

<sup>10</sup> Though the survey asked about other voice services (such as Centrex, PBX, international, and calling card), the number of customers that reported purchasing those services in any specific state rarely exceeded 100. Therefore, results for these services are not provided.

<sup>11</sup> This tabulation reports the responses to a question asking the respondent to identify its primary provider of data communications services at the location being surveyed.

<sup>12</sup> This category represents the combined shares of Fractional T-1, T-1, Fractional T-3, and DS-3/T-3 services. The T-1 results reported separately are a subset of the Hi-Cap results. Both T-1 and Hi-Cap shares are for retail data services only, and therefore do not include circuits used for voice or wholesale special access services.

penetration rates, results are reported on a regional level only. Metro area and state-specific results are not weighted by size of business; regionwide results are so weighted.<sup>13</sup> Note that for 2003, the results are for the surveyed metro areas in the regions, not SBC's entire service area in those regions. Shares for the listed services are provided on a regional level separately for Signature-like and Enterprise-like customers. Here, too, the margin of error for each of SBC's reported shares is provided at the 95% confidence interval.

#### **Additional Information – Defector Shares**

Share data reflect historical purchases by customers from market participants, not current purchase patterns. In the ordinary course of business, SBC polls customers who disconnect Basic Business Lines, Centrex lines, PBX trunks, ISDN lines, and SuperTrunks (a high capacity trunk used to provide digital channels to a PBX or similar CPE) to determine the reason for their actions. Sometimes a service is being disconnected because the customer is moving or is switching to another service offered by the same provider. Other times, of course, the service is being disconnected because of competition; the customer is switching some or all of its services to another provider.

SBC asks business customers who disconnect one of the services listed above whether they are switching to another provider, and if so, the identity of that provider. SBC seeks that information by telephone from all Signature and larger customers and from a sample of Valued customers. The results from those contacts are then weighted to reflect the overall population of businesses that disconnected a service from SBC.

SBC began gathering this information with respect to competitive disconnects that occurred in August 2003. The most recent data available are for the first quarter of 2005.

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<sup>13</sup> Thus, for one-state regions (SBC-East and, given the exclusion of Nevada from these surveys, SBC-West), differences in results reported on a statewide basis and a regional basis are due to weighting.

Ms. Marlene H. Dortch  
August 31, 2005  
Page 7

In an effort to provide this information in a meaningful and consistent manner, we are providing the data, to the extent possible, in 6 month intervals. Thus, the data are reported for (1) August – December 2003; (2) January – June 2004; (3) July – December 2004; and (4) January – March 2005. We are also providing the margin of error (at a 95% confidence interval) for each data element.

Very truly yours,



Robert M. Halperin  
Counsel for SBC Communications Inc.

Ms. Marlene H. Dortch  
August 31, 2005  
Page 8

**ATTACHMENTS REDACTED**