

Question of Potential Directory Assistance Deregulation in the US

While a question of history for some and of determined hope for others, the topic of deregulated Directory Assistance certainly brings questions to the forefront for all and is the Special Topic of this issue of the Index.

Definition

The term “deregulation” as it relates to DA may have different meanings to different parties or in various contexts. For example, it could refer to any loosening of price restrictions or delivery requirements for DA service at a state public utility level. A relevant question can be raised and debated in some states regarding whether sets of pricing and service requirements for DA calls is necessary in the wireline marketplace, among other interesting questions.

However for the purposes of this discussion, a *competitive* perspective of deregulation is considered. It is a question of “unbundled” options for giving a communication carrier’s subscriber/user a choice among multiple avenues when dialing for Directory Assistance. One meaning of this could be how the United Kingdom chose to implement deregulation: by introducing a new dial string structure with many numbers for DA, and removing the previous single dial string after a period of “dual running.” An alternate perspective defined a “pre-subscription” approach, similar to how customers select and use long distance telephone service.

Competition

As “competition” is a means to one or multiple ends, the question must be raised of what purpose the competition is intended to serve. In the UK according to Ofcom, the regulatory body over communications services, the intended purposes of DA competitive deregulation were 1) to improve pricing, and 2) to boost innovation in the product. In essence, there was a desire for *better value for more services*.

In order to accomplish the objectives, the UK introduced additional six-digit dial strings to be used for DA services – all beginning with “118” followed by three other numbers. Parties wishing to compete in the DA market space entered into a lottery system that facilitated their assignment of the last three numbers. For a period of nine months these new numbers were introduced alongside the UK’s pre-existing DA dial string, “192,” until the expiration of that number in August 2003. During that permissive dialing period, British Telecom reported that about 20% of calls to DQ, originating on their network, had shifted to the new 118 XXX DQ access scheme. Since the market went fully competitive as of August 25th, 2003, British Telecom, which is not one of the low cost providers, has lost nearly 70% of DA traffic. Another interesting observation since UK deregulation is that the average call to the most expensive service in the UK is over three times the cost of an average call to the cheapest, 118 UK.

The array of DA choices in the UK is impressive but could be bewildering to some. Following are the primary players and their retail prices (4Q 03):

Orange (118 000) – 49p for the first minute then 20p a minute
 Cable and Wireless Quickcall (118 099) - 35p for one number.
 The Number (118 118) - initial charge of 49p, then 9p a minute.
 BT (118 500) - initial charge of 25p, then 30p a minute.
 Share Communications (118 499) - initial charge of 25p, then 30p a minute. 5p per call goes to charity.
 Directory Inquiries (118 800) - 19p a minute. Minimum of one minute.
 Conduit (118 888) - 20p a minute. Minimum of one minute.
 One Tel (118 111) - 35p for one number. 1p plus VAT per call goes to the Samaritans.
 Telewest Broadband (118 180) - initial charge of 25p, then 30p a minute.
 Yellow Pages (118 247) - 40p a minute.
 One (118 811) - 30p for one search.
 192.com (118 119) - initial charge of 25p, then 30p a minute.
 118 866 - initial charge of 25p, then 20p a minute.
 Telco (118 877) - initial charge of 30p, then 5p a minute.
 Tesco (118 321) - 35p for one number.

118 international directory inquiries (from landline):

Telewest (118 190) - initial charge of £1, then 60p a minute.
 Cable and Wireless (118 449) - one-off charge of 50p, then 80p a minute.
 BT (118 505) - £1.50 a minute.
 118 866 - initial charge of 49p, then 9p a minute.
 118 899 - 75p a minute. Minimum of one minute.
 Orange (118 880) - up to three searches for £2.

*Note - Exchange rate 1.636 US dollars = 1 pound
 BT's 192 price prior to competition =30p*

Comparatively, the following shows the average price of a DA call for 4 provider segments in the US (4Q03):

Provider	Average Price
ILEC Local	\$0.80
ILEC Long Distance	\$1.20
IXC	\$2.05
Wireless	\$1.25

In addition to the wide range of provider choices, the transition phase to a competitive market has seen some other problems such as fines (for both the incumbent and two competitors in the UK for misleading advertisements).

There are a number of new information services available in the UK now that were previously unavailable or uncommonly found – for example movie times & listings, increased call connection ability, and just recently national rail enquiries, among others. Also pricing now varies along a range, usually including a flat service fee plus a per-minute charge for the duration of the onward-connected call. Ofcom points out that since there is such a wide range of numbers available for DA providers to utilize, some providers have offered multiple levels of service ranging from inexpensive “bare bones”

service in which the caller receives a verbal report of one listing (no enhanced services) and is not connected, to more expensive but higher value service in which many listings and enhanced services may be requested and the caller is connected onward to a destination.

One point of interest from Ofcom, however, is to note a drop in DA call volume since the deregulation implementation began. PGL's contacts at Ofcom were not able to specify the degree of the drop in volume, but attributed the drop to two likely main factors.¹

The first factor is a general awareness that DA service is provided for any significant fee at all – some consumers were not aware of the cost of the service prior to deregulation, and due to the necessary publicity around the effort they are now aware of the expense and many try to avoid it. The second is a greater awareness of other avenues for obtaining DA information – the continued upward trend of internet search usage, wireless handheld device access & communication, printed material, etc.

In the US price and innovation needs are not as significant as they were in the UK, though there is variance on these two points between wireline and wireless services in the US. Product innovation (i.e., enhanced services) is strong in the US market. From a consumer's point of view there are multiple options available on both price and product variation when considering all the avenues for obtaining information. Some parties point out that US consumers have similar and increasing competitive choices that UK consumers have (and had) in being able to seek DA information on the Internet, dial-around numbers, handheld devices, print materials, etc. In addition because of some variation in wireline DA service vs. wireless DA service, users also have an additional competitive choice by deciding which phone to use when dialing 411 – wireline vs. wireless.

DA competition via the voice/dialing access method did and does exist in the US: for example, MCI's "10-10-9000," AT&T's "00" (Double O) Info, and Metro One's Infone (888-411-1111) for NDA service. Prior to September 1, 2004 users from most residential and some business wireline phones could reach 10-10-9000 and receive two listing searches and receive call completion for \$0.99 plus a per-minute charge. (10-10-9000 is no longer available as of 9/1/2004.) "00" Info (also reachable by dialing 10-10-ATT-00 from a non-AT&T wireline phone) continues to provide service for listing searches, yellow-page searches, and reverse searches for a \$1.99 fee plus a per-minute charge for the duration of a connected call. Both of these services bill(ed) callers through the wireline subscriber's regular phone bill.

In contrast Infone offers enhanced NDA and other premium services (movie ticketing most recently) and at a cheaper initial price, but uses an alternate relationship model utilizing pre-established credit card billing. Based on what we know regarding all of these dial-around services we have learned to some degree in the US what has become clear in the UK and other deregulated countries, that competitive/optional DA services are highly susceptible to promotion levels. Without continued public promotion, companies competing in this manner maintain relatively lower volumes.

¹ The UK market is unable to be precise with describing the volume drop due to incomplete information regarding total volume prior to deregulation, but some estimates have placed the percentage drop as high as 40% or more.

This is not to say that competitive deregulation would not further increase those choices and stratify cost options, but it is to acknowledge that there is a question about the degree of need for competition based on price or innovation.

What other end results, then, might greater competition serve to accomplish? Are there other driving needs in the market place to be met by increased competition? Looking at this question from PGL's Care and Fulfillment perspective, at least one party (Telegate, see more below) has argued that performance in these two critical service factors would be increased as a result of competitive retail deregulation through pre-subscription.

Care performance is already highly competitive across industry segments, increasingly so over the past 12-18 months. The performance achievements at the top levels are aggressive and are most likely bumping near maximum performance levels, when considering human factors. Likewise top Fulfillment performance in the US has such a narrow margin for improvement that operator performance is likely already pushing the boundaries of human potential, and database accuracy is nearly maxed due to aggregator competition.

Our position is that the scrutiny and visibility PGL has given to these concepts in the marketplace, combined with wholesale level competition in the industry, has continued to push strong Fulfillment and Care without competition at the retail level – even though retail users have been the beneficiaries.

Regulation

If deregulation were to occur, in what form might that take place and what are the factors to consider?

A fair amount of discussion facilitated by the FCC has taken place with respect to a proposed rule making published for comments in early 2002. (Reference CC Docket No.'s 99-273, 92-105, 92-237.) In that discussion the FCC sought "...comments as to whether the market for the competitive provision of directory assistance has developed to the point that additional steps must now be taken to ensure that all competitors have the same opportunity for access to customers ... [or] whether the directory assistance market is sufficiently open to competition that further regulatory action is unnecessary."

More specifically the FCC sought comments on Telegate's proposal at the time that a pre-subscription approach be implemented for consumers' access to 411, and also on alternative dialing methods combined with an elimination of the 411 dialing code (the UK model of deregulation). Without revisiting that full discussion, this article acknowledges that it does not appear the FCC will seek a strong federal level course of action with respect to those proposals.

Though neither the FCC nor specific proponents of a competitive deregulation plan commented on this topic for this article, PGL believes there is still a level of interest among some players in the DA industry. In order to speculate on how proponents might approach further movement for competition, consider a point of view regarding the uniqueness of the US communications environment and a brief look at what Metro One has done via Infone.

US Telecommunications Environment

Ofcom's further advice from the UK experience is to place importance on looking at and learning from what other countries have done in seeking competitive deregulation, but to consider the context within the target country in order to account for unique circumstances. Ofcom itself did not use a *direct* model for their deregulation process and structuring, but studied the experiences of Germany, Sweden, and other predecessors – and then formed a unique approach for the UK market. The long-term European experience with the deregulated environment, also possibly occurring slowly in the UK, is that very few major players emerge with significant, sustained volume (the incumbent telecom provider and a driven start-up or new entrant or two), which is heavily dependent on advertising. For instance, market data shows that in Germany, Deutsche Telekom holds a 60% market share for DA, while telegate AG has a 30% share and the remaining 10% is held by other providers. Germany's DA market expanded 12 percent and Ireland's expanded 40 percent after the nations opened the DA market to full competition. In Ireland, the market for DA services is divided among Eircom (77%), Conduit (18%), Vodafone (3%), and Digiphone (2%). In Sweden, wireless consumers can now choose from two DA services, one that provides automated information for about 25 cents per call and another that offers a live-operator and access to enhanced features for about \$2 per call.

In discussions with several PGL clients, they commonly identified a unique point regarding the US environment as compared to the UK and other European countries: a vast geographic area that is broken into many relatively autonomous states, each with its own Public Utilities Commission and corresponding requirements and regulations. Such an environment creates new questions for deregulation and places the topic into a context for which there is no direct model to consider.

Infone

PGL does not intend to evaluate the Infone business model implemented by Metro One, but sees it as an example to point out two of the factors that present learning points regarding this topic. First, that it is clear as noted above that significant advertising is necessary to gain and maintain an active customer base. Name and service recognition are essential to maintaining volume and therefore operating revenue. Second, in providing a national service via a toll-free number, alternate billing methods are necessary – methods which potential customers are likely not as accustomed to and which may be a business obstacle to overcome.

Metro One has taken a courageous step with this product and has commendably established an active customer base despite the challenges. We point out the factors above because it helps to see that it would be desirable to reduce one or both of those factors if possible. The advertising aspect is absolutely a “given” for any competitive retail deregulation, so we anticipate proponents may seek an approach that could make it easier to handle billing.

Combine these two considerations with the fact that some states are already deregulating DA in the restriction-loosening sense of the term, our speculation is that proponents may go to a state-by-state (555-dial strings?) approach with PUCs, or a 10-10- dial string approach, if voice-based competitive deregulation continues to be pursued.

Promotion

Regardless of how further competition might develop, the overriding facet of the competitive DA environment is how critical promotion and advertising becomes. “The Number” (118-118) in the UK has demonstrated this by using wildly popular advertising campaigns, somewhat boosted by having the most memorable number in the market, to meet or exceed the incumbent BT’s DA volume. To our knowledge this is the first example of a start-up competitor accomplishing this in a deregulating country, as other countries have seen the incumbent dominate with the primary competition playing runner-up at around 20-35% of the market (and even that share being dependent on heavy promotion). BT’s ability to achieve and maintain a significant market share above 40% is also a significant accomplishment through a blitz of number placement and promotion, with its number 118-500 being less naturally-memorable than the repetitive competitors 118-118 or 11-88-88.

Further, an Ofcom study earlier this year indicates that users in the UK market are easily confused about numbers to call, pricing, and competitors’ quality performance levels. The impact extends to the point where quality of service does not translate into higher/lower volume as directly as number recognition (as a result of advertising) does.

Some US carriers and dial-around DA providers have utilized a few big names in either promoting higher usage among a subscriber base or luring callers to their competitive dial-around. Lily Tomlin, Julia Louis-Dreyfus, James Earl Jones, and Jesse Ventura have each brought the US consumer a little further into the world of DA. AT&T even reached number/brand awareness within “a couple percentage points” behind 411 and 555-1212. Companies would need to prepare a similar sustained, recognizable, simple-to-dial brand and campaign across multiple media in order to succeed in a more competitive retail DA market.

Parting Advice

Two final thoughts in conclusion, points of advice from Ofcom to be considered regarding competitive deregulation on any level:

- Measure the environment well – before, during, and after any changes. Due to not having a great deal of concern about pre-deregulation service accuracy, for example, the UK DA industry does not have a wealth of data regarding operator or database accuracy. It is now difficult to compare current performance levels to the “before” levels in order to understand full impacts of the transition.
- Involve the public ahead of time as much as possible in any debate and design input for proposed changes. There is certainly no lack of public comment in the UK regarding concern over the deregulation event, ranging from comedic columnists and confused consumers to frustrated and angry Members of Parliament calling for crack-downs on service quality. This, even with a fair amount of public information and opportunity for discussion in advance.

PGL notes that the first point is well covered in the US through the Performance Index and other measurement activity, and is pleased to be able to facilitate and participate in open discussion in a public arena on topics such as this one.