

MARKETING STRATEGY IN THE SERVICE INDUSTRY:

A PRODUCT LIFE CYCLE CASE STUDY

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Submitted to the Alfred P. Sloan School of Management
on May 1, 1986
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Abstract

This thesis, developed because of the interest of Professor Steven Star in the use of product life cycle theory in the service industry and my desire to better understand the development of marketing strategies, has resulted in a case study of a yellow pages advertising firm to which product life cycle marketing strategies are applied, with the expressed purpose of gauging the possibility of successfully transferring traditional marketing tools developed for goods industries to service industries.

After performing a research of the marketing literature on both the peculiarities of service industries and the product life cycle concept, I interviewed a wide range of key individuals in the yellow pages advertising and publishing subsidiary of one of the seven regional companies formed following the settlement of the federal antitrust lawsuit against American Telephone and Telegraph. These interviews formed the basis of the case study developed in Chapter 4, which looks at the position in which the subject company found itself at the end of 1985. Highlighted are the status of the changing industry in which the firm operates, its past and current marketing strategies, and a series of critical issues which caused the company to completely reevaluate its strategic marketing direction. The case is written to facilitate study in a classroom situation, where students could be asked to develop alternative marketing strategies for the firm.

Analysis of the case, using the product life cycle concept of applying specific marketing strategies based on a product's particular life stage, revealed that many, though not all, of the traditional goods marketing strategies associated with product life cycle management can be used effectively in a service firm. This finding should encourage other researchers to pursue the possibility of adapting and transferring other traditional goods industry marketing tools to service industries.

Acknowledgements

I thank Professor Steven Star for his courage in working with a neophyte in the marketing field and for his able direction and ready enthusiasm in helping me to develop this case study. Without him, I would have been loathe to venture into marketing strategy and would, therefore, have missed a tremendous learning experience.

I also thank my husband, Jerome, and my daughter, Cheryl, for their understanding during my more trying days. I could not have completed this thesis - or this year - without their willingness and ability to join me in this very different strategic career undertaking.

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CHAPTER 1

INTRODUCTION

Since the early 1970s, educational institutions, management consulting firms, and large corporations have spent a great deal of effort, time, and money on planning. Touted by universities graduating MBAs trained in a myriad of techniques to find out "what our business is" and "what we should be," planning and its promise of measured, logical growth captured the minds and hearts of many executives in corporate America. Even more fascinating was the concept of strategic planning, especially in the marketing arena, where one looked beyond the current situation and developed a long-term strategy designed to achieve preeminence in one's industry. Emphasis on generic strategies for a firm - low cost, differentiation, or niche - were put forward by Kenneth Andrews (1980), who declared that

Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, customers, and communities... [It] defines the businesses in which a company will compete, preferably in a way that focuses resources to convey distinctive competencies into competitive advantages. (p. 41)

Porter (1980) expanded the concept of corporate strategy and provided a framework from which a firm could analyze itself and its competitors to ascertain where it might best position itself to increase profits and achieve a significant competitive advantage over others in or entering

the industry. Finally, Hax and Majluf (1984) detailed a variety of planning methodologies to analyze the internal and external environment with a goal of attaining strategic management. Defined as "the development of corporate values, managerial capabilities, organizational responsibilities and administrative systems which link strategic and operational decision-making, at all hierarchical levels, and across all businesses and functional lines of authority in a firm," strategic management represents complete integration of the top-down and bottom-up communications which permit a company to maximize shareholder earnings (Hax and Majluf, 1984, p. 72).

Included in all literature dealing with effective corporate planning is the concept of knowing and understanding the external environment in which the firm operates, i.e., markets, competitors, stakeholders. Indeed, many strategic tasks are largely related to the function of marketing, including selecting market and competitive arenas in which the firm wishes to be active and the role - cost leader, differentiator, nicher - it wishes to to assume. The strategic planning process is primarily involved with assessing alternative market opportunities in light of corporate competencies and creating a match which will

- define the boundaries of the business
- set the measurements of success for the marketplaces in which the firm competes
- forecast market performance and financial results of strategic options
- assess the likelihood and potential of marketplace changes/competitors (Wiersema, 1982)

Marketing in most goods firms is a functional discipline engaged in identification of market opportunities, selection of target segments, competitive positioning, marketing mix design, and program implementation and control. While most of the areas of a functional marketing organization parallel strategic planning concerns, the former has a much more narrow scope. Strategic planning integrates market performance and competitive position with financial strategies and cost control to create the optimum corporate profit perspective.

Because the role of marketing is essential in the successful development of a strategic plan, Wiersema (1975) has suggested that a strategic marketing approach be assumed by traditional marketing departments. Strategic marketing would broaden traditional functions by strengthening its

- integrative role across product markets and functional areas.
- vertical ties with other functions and with corporate planning.
- external focus on the marketplace to enhance adaptability in relation to corporate competitors and more volatile environments.

Thus, in addition to dealing with marketing strategy, i.e., marketing expenditures, marketing mix - product, price, place, promotion, and marketing allocations, marketing managers must assume a broader perspective to insure corporate success.

In considering ways which firms might achieve a strategic marketing posture, Abell (1975) hypothesized that all markets evolve in similar ways. He reasoned, therefore, that common marketing strategies might be

developed for dealing with the four stages of evolution he identified:

"In the initial stages, the choices are primarily with what force to enter the market and whether to target a relatively narrow segment of customers or a much broader customer group.

In the growth stage, the choices appear to be to what extent to fortify and consolidate previously established market positions or to develop new primary demand. In the latter case, that may be accomplished by a variety of means, including the development of new applications, geographic extension, trading down to previously untapped customer group, or the addition of related products.

In the late growth and early maturity stages, the choices lie among the various alternatives for achieving a larger share of the existing market. This may involve product improvement, product line extension, finer positioning of the product line, a shift to in-depth focus rather than breadth of offering, invading the market of a competitor who has invaded your own market, or cutting out some of the 'frills' associated with the product to appeal better to certain classes of customers.

In the mature stages, market positions have become established and the primary emphasis is on nose-to-nose competition in the various segments of the market. This may take the form of price competition, minor feature competition, or promotional competition."
(Abell, 1975, p. 24)

These concepts have been formalized into a fairly structured methodology by Arthur D. Little known today as the product life cycle approach to strategic planning (Hax and Majluf, 1984). Used by firms with multiple businesses, this process is similar to many of the other portfolio matrices developed in the seventies to assist in resource allocation. Used in a single-product firm, the concept becomes primarily a means of strategic marketing.

This paper utilizes the product life cycle concept in the latter

situation. Since the product life cycle was originally envisioned as a tool by which goods manufacturers could set marketing strategies consistent with the particular life stage of each product or product line sold, research on the effectiveness of the concept for developing marketing strategies is available. However, little research has been done regarding the application of life cycle theory to the burgeoning service industries. Because service industries in general account for a larger and larger share of U. S. Gross National Product, it is meaningful to attempt to ascertain whether marketing tools originally developed for the goods sector of the economy can be used to increase the profitability of the service industry.

As a means of viewing the implications of product life cycle theory for a service firm, the author selected yellow pages advertising as a representative service to be examined. Interviews were conducted with a large company engaged in providing yellow pages advertising to develop a case study of the firm, its industry, and its current strategy. Finally, an analysis of alternative strategies for the firm was performed based on the life-cycle stage of its advertising service, including traditional strategies associated with manufactured goods in a similar life-cycle stage. The appropriateness of the traditional strategies will be used as evidence to support the contention that many marketing tools developed especially for manufactured goods management can be transferred successfully to services management.

Chapter 1 of the paper outlines the goals and methodology of the author. Chapter 2 defines the services sector and explores the approaches of

previous researchers in examining the likelihood of successfully transferring marketing strategies between goods and service industries. Chapter 3 review the literature dealing with the product life cycle concept and its uses in the manufacturing sector. Chapter 4 presents the case study of BABYBELL Publishing, Inc. (BBPI), including history, industry analysis, product scope, and current strategy. Actual names and figures in the study have been masked at the request of the organization to preclude revealing competitive information. Chapter 5 contains the detailed analysis and conclusions of the author regarding the usefulness of the product life cycle concept in providing alternative marketing strategies for advertising firms.

It is hoped that this effort will encourage other researchers to more fully explore the strategic marketing needs of firms in the services sector, with emphasis on adapting existing tools or devising new ones to assist managers in their quest for increased business success.

CHAPTER 2
SERVICE INDUSTRIES

The 1985 Economic Report of the President included some surprising statistics regarding the make-up of the Gross National Product (GNP). For the first time in U. S. history, the services sector and durable goods manufacturing sector each contributed 13.5% of GNP. By expanding the narrow definition of services used by the Department of Commerce to include transportation/utilities, wholesale and retail trade, and finance, insurance, and real estate, services provided 56.7% of 1983 GNP, as compared to 30.3% from a combined grouping of manufacturing, agriculture, mining, and construction, with the remaining 13% coming from government and overseas operations (Economic Report of the President, p. 245). This trend of increased GNP from the services sector and reduced GNP from the manufacturing sector is one which dates back to 1960. Since that time, the services sector of the economy has expanded by 148%, compared to only 106% for durable and non-durable manufactured goods. By 1983, 73% of those employed in the United States worked in the services sector (Kotler, 1984).

Such statistics indicate that over the last 25 years the U. S. economy has made the transition from a manufacturing/industrial base to a service base. Gershuny and Miles (1983) list three potential reasons for this shift:

Growth... "related to the increasing demand for 'intermediate' or 'producer' services from elsewhere in the economy (i.e., the division of labour in production processes itself generates demand for new

service industries)."

Growth... "related to the increasing demand for services from final consumers as societies get richer (i.e., services are 'income elastic.')" "

Growth... "related to the lower rate of increase of labour productivity in the services sector relative to manufacturing (i.e., growth in demand, even if it were to be equally distributed across the sectors, would require a continuous transfer of labour to the services sector)."

(pp. 28-29)

Whatever the reasons, however, it is clear that managers working in those growing service industries have as much need of strategy, marketing, and other managerial tools as do their counterparts in manufacturing. Indeed, such a trend indicates the importance of insuring that managers working in service industries have access to all of the research and techniques originally developed for the manufacturing sector, with appropriate modifications based on the special needs of service businesses, to assure continuing growth in services as the manufacturing sector shrinks.

Unfortunately, research on the application and transfer of traditional strategy and marketing tools from manufacturing to service industries has been slow, partially because of the difficulty of identifying a service industry as separate from a goods or manufacturing industry. Some authors have identified a service industry as one which does not produce goods. Kotler (1984) has gone further, defining a service as "...any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product"

(p. 497).

Browning and Singelmann (1975) grouped service industries into four major categories. Producer services include businesses which provide finance, design, management, advertising, and legal service to other firms. Distributive services include businesses engaged in transportation, communication, storage, etc. to other firms. Social services are businesses - both profit and nonprofit - engaged in providing for health, education, defense, etc. of the population. Government would be one of the major "businesses" in this category. Their final category embraces all of the personal services, such as domestic, lodging, restaurant, entertainment, and beauty shops. Sibson (1971) has identified only two appropriate categories: professional services and nonprofessional services. The professional services firm is one which "sells or renders the knowledge of its people" as opposed to the nonprofessional service firm which sells the skill of its employees. Sibson declares that distinguishing between knowledge and skill is vital in properly classifying a business, since strategies and operational activities of the two differ considerably. Among those types of businesses which Sibson would classify as professional are firms engaged in:

Private

Advertising/Accounting
Consulting/Engineering
Investment Banking
Law/Medicine
R&D Laboratories

Public

Hospitals
Museums
Churches
Education/Social
Service Agencies

Other types of firms, including finance, insurance, real estate,

transportation, utilities, military/safety, and wholesale/retail trade, would be classified in the nonprofessional services industries. Even this type of categorization would not permit generalization of business techniques across such a broad range of firms, however.

In trying to deal with the diversity inherent in service industries, Thomas (1978) has classified services by type: equipment-based (airlines) or people-based (consulting); client's presence at the time of service delivery, e.g., beauty salon versus television repair; client's purchase motive, e.g., personal versus; service provider's motives, e.g., profit or non profit; and service provider's form, e.g., private enterprise or public (government) sector. By attempting to categorize service firms, academicians have begun to determine what material, if any, in current business literature and research may be applicable to service industries.

In narrowing the study of service industries to the field of marketing strategies, several authors have labored to identify the key characteristics which make service firms different from manufacturing or goods-producing firms. Shostack (1977), Berry (1980), and Langeard, Bateson, Lovelock and Eglie (1981) argue that service firms are so different from goods firms that each requires its own set of strategies and marketing practices, which can rarely be transferred across the boundary between the two. Berry characterizes services as "relatively intangible, produced and consumed simultaneously, and less standardized than goods. These unique characteristics of services present special challenges and strategic marketing opportunities to the services

marketer" (p.). Kotler (1984) typifies services as being:

Intangible

They cannot be seen, tasted, felt, heard, or smelled before they are bought... the buyer has to have faith in the service provider.

Inseparable

A service is inseparable from its source whether the source is a person or machine... physical product exists whether or not its source is present.

Variable

Services... depend on who provides them and when and where they are provided... Buyers... frequently talk to others before selecting a service provider.

Perishable

Services cannot be stored. ...when demand fluctuates, service firms have difficult problems.

(pp. 497-498)

Firms engaged in providing advertising services to business clients fall in Sibson's "professional" category and in Browning and Singelmann's "production services" group and might, therefore, be expected to require special strategies to deal with those characteristics of the business which are unique to the service industry. Advertising firms provide "nonpersonal forms of communication conducted through paid media under clear sponsorship" (Kotler, 1984, p. 635) to a variety of business clients who wish to inform, persuade, remind, or reinforce the targeted group - consumers or other business clients - of a specific message. In all cases, the advertiser is seeking an intangible product, one which only achieves tangibility through the capabilities of the advertising firm employees. The advertising firm's product, then, is its ability to communicate a confidence in itself and in its ability to meet the customer's special needs and to fulfill them successfully. Even when

tangible evidence has been provided, e.g., print copy, television commercial, the advertiser is still accepting on faith that the message will reach the desired audience - working women between the ages of 28 and 40, with children, and family income less than \$25,000 annually - and have the effect of increasing its business, either through improved image or actual sales.

To deal with this "faith" dilemma, advertising firms rely on several marketing strategies:

- Quality reputation and word-of mouth testimonial reinforcement
- Superior customer service, both before and after the sale
- Appropriate pricing (higher may evoke a quality image)

Because advertising has a "magical" quality, advertising firms go to great lengths to provide tangible evidence of the effects of their intangible product. Sophisticated demographic segmentation and testing are performed on the copy or commercial prior to its release to convince the customer of its effectiveness. Indeed, anything which can link the intangible "message" to a tangible object is common, e.g., plush offices on Madison Avenue. All of this is intended to build client confidence, reassuring the advertiser that the risk associated with buying what cannot be seen or touched is minimal with the "right" advertising firm.

Strategies to deal with the inseparable nature of the firm and its service might include having staff dress to reinforce the "image" the client is buying, e.g., staid and dependable might entail suits and

ties, while creative and innovative might demand jeans, loose shirts, and beards for men or avant-garde clothes and punk hairstyles for women. The point is that those visible symbols - the staff, the office space, the other clients - must convince the client that the ability to deliver exists and that those doing the delivery are what one might expect.

Variability or quality control is much more difficult in an advertising firm, where people's ideas are the product. Thus, managers in those firms must be careful in their personnel selection and training. In addition, they must be especially demanding of the quality produced in the tangible evidence of their service, e.g., actors and copy in television or radio commercials, colors and layout in a magazine ad, accuracy in a yellow pages advertisement. Failure to provide the quality in the only thing the customer can see will guarantee the firm's demise.

Finally, perishability can be managed by proper scheduling of account commitment times and known peak loads for ongoing, annual campaigns. In addition, by knowing the limitations of staff size, managers can seek out or discourage new accounts, hire clerical forces to eliminate unnecessary detail work by creative talent, and insure good supplier relations for external graphics, printing, or film in a timely fashion. The firm must always keep in mind that good ideas which never reach fruition represent lost revenues and clients in the "idea" business.

Some of the strategies listed above could apply to a goods as well as a service firm. Does a service firm really require different tools? Are

marketing strategies transferrable? Gary Knisley, in 1979 interviews with marketing managers who had moved from the goods to the service sector, discovered that many found the tactics different, but not the strategies. J. L. Schorr, executive vice president of marketing for Holiday Inns, felt that advertising in the service sector was not as efficient as in the goods sector where quality could be well controlled. Such common wisdom as doing more advertising in periods of high consumption for the goods industry can be a disaster in the service industry, where high demand is already putting a strain on personnel and other resources. Schorr also found that sophisticated qualitative market research was much more difficult to accomplish, with many service industries relying on attitude surveys or general impressions of success; client demographics and other marketing tools seem less utilized as successful service firms concentrate on providing for meeting customer demands through operations. Service marketing is often seen more as an art than a science, where listening to the customer, knowing his wants and needs, and meeting them is what keeps the business going (Lovelock, 1984).

It still sounds as if the academicians outside, and marketing experts inside, service businesses are undecided. The evidence that service marketing is so different that it requires totally new tools and strategies is not convincing. Wasson (1974) contends that the "physical entity to which we gain possession in any purchase is really simply a necessary nuisance, merely a requisite bit of evidence that we have acquired a key element of a system needed to satisfy a group of desires"

(p. 10). In essence Wasson is saying that every firm ultimately delivers a service, whether that service is through a tangible good or an intangible "service," from which one might infer that service firms do not have different marketing needs from goods firms, making all marketing tools equally applicable to either.

Accordingly, it is appropriate to look at one of the more common marketing concepts in the goods sector - product life cycle management - and ascertain whether, in the area of yellow pages advertising, it can be used to devise useful strategies and direction for managers.

CHAPTER 3

PRODUCT LIFE CYCLE CONCEPT

One is unlikely to open any marketing textbook which does not include a section on the product life cycle concept. Developed to provide a systematic way of dealing with goods product management, the product life cycle uses assumptions based on the generally cyclical nature of life around us. Plants and animals are born, grow, mature, and die. The earth experiences specific seasons which reflect this birth (spring), growth (summer), maturity (fall), and death (winter). It is not surprising, then, that researchers, observing that sales and profitability of various goods changed substantially over their history, should begin to ask whether thinking of products as having a specific "life" might not be useful in the dynamic, competitive field of marketing.

Kotler (1984) describes the product life cycle concept as "an attempt to recognize distinct stages in the sales history of the product. Corresponding to these stages are distinct opportunities and problems with respect to marketing strategy and profit potential" (pp. 353-54). Inherent assumptions about the product life cycle concept conclude that each product has a finite existence, goes through predictable stages, produces sales and profit levels which vary with each stage, and requires different functional strategies at each stage to optimize corporate returns. Early researchers identified six stages in a product's life cycle: market development, rapid sales growth,

competitive turbulence, saturated maturity, decline, and death. More recently, however, authors have reduced the stages to four, as more representative of stages for all products:

The introduction stage is a slow-growth, usually non-profit-generating, period immediately following product introduction.

The growth stage begins when profits are generated as the product achieves a foothold in the market.

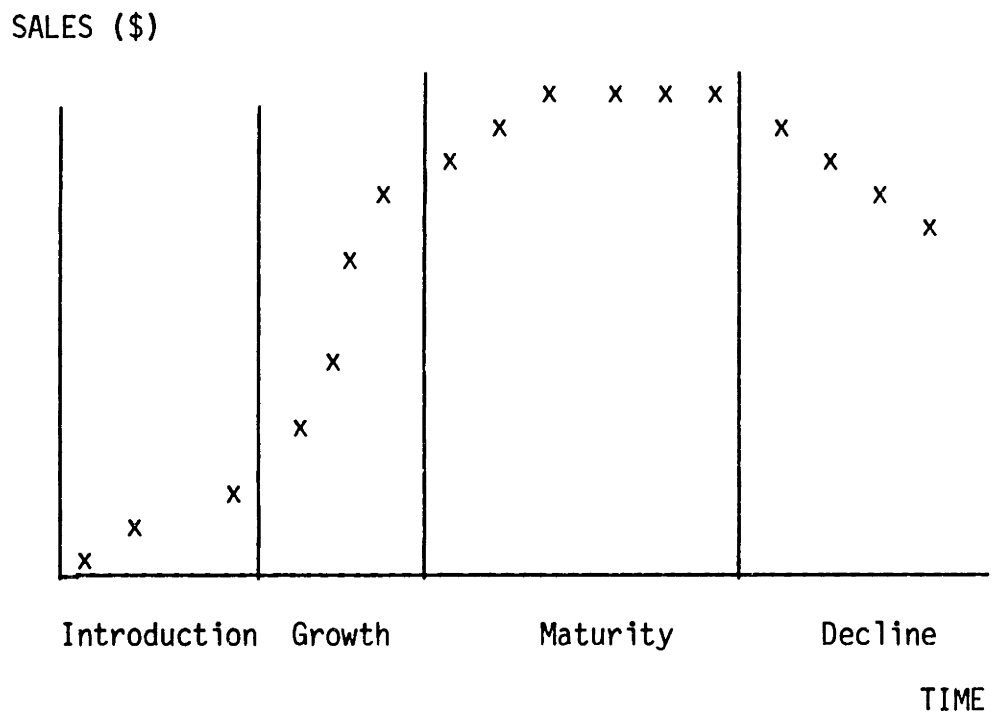
The maturity stage begins as profits plateau with market saturation or are reduced because of increased defensive expenditures required to keep competitors at bay.

The decline stage begins as profits enter a deep decline or disappear altogether.

These stages are represented graphically by the "S Curve" depicted in Figure 1. Specific marketing strategies and tactics associated with each stage might be exemplified as shown in Figure 2.

Life cycle planning has also been used to develop strategies for specific markets and entire industries. The Life-cycle Portfolio Matrix designed by Arthur D. Little presents a pictorial representation of the business in two dimensions: the external forces over which it has no control, represented by four life-cycle stages - embryonic, growth, maturity, and aging - and the strengths the firm has in the industry, represented by six categories labeled dominant, strong, favorable, tenable, weak, and nonviable. The purpose of the matrix is to assist in identifying a firm's strategic business units, to provide a systematic analysis tool by which each business' life cycle stage can be determined, and to provide support for identifying the categories of competitive positioning of each business (Hax and Majluf, 1984). A set

Figure 1
Product Life Cycle Curve



Source: Kotler, 1984, p. 394.

Figure 2
 How PLC Advocates View the Implications of the Cycle for Marketing Action
 (Dunne & Obenhouse, 1980, p. 59)

EFFECTS AND RESPONSES	STAGES OF THE PLC			
	Introduction	Growth	Maturity	Decline
Competition	None of importance	Some emulators	Many rivals competing for a small piece of the pie	Few in number with a rapid shakeout of weak members
Overall strategy	Market establishment; persuade early adopters to try the product	Market penetration; persuade mass market to prefer the brand	Defense of brand position; check the inroads of competition	Preparations for removal; milk the brand dry of all possible benefits
Profits	Negligible because of high production and marketing costs	Reach peak levels as a result of high prices and growing demand	Increasing competition cuts into profit margins and ultimately into total profits	Declining volume pushes costs up to levels that eliminate profits entirely
Retail prices	High, to recover some of the excessive costs of launching	High, to take advantage of heavy consumer demand	What the traffic will bear; need to avoid price wars	Low enough to permit quick liquidation of inventory
Distribution	Selective, as distribution is slowly built up	Intensive; employ small trade discounts since dealers are eager to store	Intensive; heavy trade allowances to retain shelf space	Selective; unprofitable outlets slowly phased out
Advertising strategy	Aim at the needs of early adopters	Make the mass market aware of brand benefits	Use advertising as a vehicle for differentiation among otherwise similar brands	Emphasize low price to reduce stock
Advertising emphases	High, to generate awareness and interest among early adopters and persuade dealers to stock the brand	Moderate, to let sales rise on the sheer momentum of word-of-mouth recommendations	Moderate, since most buyers are aware of brand characteristics	Minimal expenditures required to phase out the product
Consumer sales and promotion expenditures	Heavy, to entice target groups with samples, coupons, and other inducements to try the brand	Moderate, to create brand preference (advertising is better suited to do this job)	Heavy, to encourage brand switching, hoping to convert some buyers into loyal users	Minimal, to let the brand coast by itself

of 24 generic strategies, applicable depending on the strength of the business and its life-cycle stage, has been identified to assist managers in setting the direction of the firm and allocating resources to the various businesses.

As soon as the idealized PLC model was developed, researchers immediately identified all sorts of specialty curves for products which did not go through the standard cycle (Swan and Rink, 1982). Fads, for example, display a meteoric growth phase which moves directly into deep decline as consumers discard the "old" and embrace the "new." In addition, many products never seem to enter the decline stage, e.g., Ivory soap, or seem to be rejuvenated many times over a very long maturity cycle. Thus, managers attempting to use the product life cycle encountered a variety of practical problems:

Precisely when did one cycle end and another begin?

When did a product merit expenditures for rejuvenation versus a discrete burial?

Can a product's stages be predicted prior to introduction?

Does a product category have a different life cycle from a product form or brand, e.g., cigarettes, unfiltered cigarettes, and Lucky Strikes?

In many managers' minds, the product life cycle concept raised more questions than it answered. Researchers found some products for which the theoretical "S-curve" was very accurate, e.g., grocery products (Buzzell, 1966) and nondurable goods (Polli and Cook, 1969). Some have even gone so far as to predict average periods of time associated with the four stages (Cox, 1967). Urban and Hauser (1980) used the product

life cycle concept to build models by which companies can predict the growth rate of a market, rather than a specific product, in attempting to determine strategies for new products. Nonetheless, many opponents complain that there are more exceptions than rules when defining product life cycles, making them useless for marketing theory.

Dhalla and Yuspeh (1976) claimed that it is not possible to validate the product life cycle concept at all. They indicate that there is no evidence that brands exhibit life cycle stages. Instead, they conclude that the product life cycle is a "dependent variable which is determined by marketing actions; it is not an independent variable to which companies should adapt their marketing programs. Marketing management itself can alter the shape and duration of a brand's life cycle" (Dunne and Obenhouse, 1980, p. 60). Dhalla and Yuspeh contend that product life cycle theory is simply a self-fulfilling prophecy in which a company, seeing a slight decline in sales and believing the decline to be the result of the "natural" life cycle, withdraws resource support and dooms the product to its "death." Dupont is cited as a company which ignored the product life cycle concept and succeeded, with the repositioning of nylon into the hosiery market. The authors condemn the product life cycle for encouraging companies to be too quick to discard products and attempting to introduce new ones, foregoing a great deal of profit which could have been achieved by innovative marketing techniques.

Having read the arguments for and against the use of the product life cycle as a basic marketing tool, one must conclude that its validity

lies not in its explicit predictive capabilities but in its capability to provide a framework within which companies can think about their products. Such a tool is especially vital to a multi-product firm which must shift its resources among a variety of goods and must, therefore, have some way of discriminating. Clearly, marketing managers should not blindly assume that a decline in sales means the demise of a product. What using the product life cycle theory can do is to alert managers to look closely at possible causes of declines, at alternative strategies for rejuvenation, and at carefully conducted market research. After such reviews, a product manager should be able to recommend tactics which would reposition the product or extend its profitable "life." If the review indicates that the external market has changed so substantially that no resurrection is possible, the company can manage the decline, selecting strategies which would reduce expenditures at the proper time while continuing to extract all possible profits, until a "decent burial" can be made. As Levitt (1965) has indicated, forming early product life cycle extension strategies has three advantages:

It generates an active rather than a reactive product policy.

It lays out a long-term plan.

It forces a company to adopt a wider view of the nature of the product it is dealing with.

Wasson (1974) described the product life cycle as giving company management "a framework of expectations - a set of patterns of the kinds of developments to which we need to be alert and for which we need to plan in advance" (p. 10). As any good manager will tell you, however, a

plan is just that. Being alert to what happens in a dynamic, competitive market and diagnosing how such events affect the assumptions and change the actions detailed in a plan will determine the success of a product and the prosperity of its company.

When research has been done on the application of product life cycle theory, it has generally been on tangible goods. The following chapters, detailing the case history of BBPI and selection of an appropriate strategy based on product life cycle concepts, will attempt to examine the potential usefulness of this tool in the services industry.

CHAPTER 4
BABYBELL PUBLISHING, INC.

Prologue

Marketing Vice President Pete Powers listened intently as Jim Spencer, Assistant Vice President for marketing planning and strategy, summarized the alternative strategies by which BBPI might more effectively deal with the competition which had recently appeared in two of its most profitable geographic markets. Pete had asked Jim and his staff to analyze the company's current business plan and prepare to revise it in light of the external market changes which BBPI was experiencing. Pete would be discussing the alternatives and his proposed strategy with President Bill Denson at an afternoon meeting. During the following weeks, Bill and Pete would present the new plan to BBPI's parent company, BABYBELL, INC.

"As soon as I looked at the product life cycle analysis for the yellow pages, I knew that there was only one way to go," continued Jim. "This is a classic case of a mature product which is losing market share to competition. We should plan to spend as little money as possible to maintain our cash flow from yellow pages and prepare to get into other businesses." Jim's matter-of-fact assessment stunned Pete. He had known that revenue growth in the two geographic areas where competition had entered was only 6% compared to the normal 15% increase, but he found it hard to believe that this signalled the demise of such a profitable product. Even worse, it was the company's only product!

"Thanks very much, Jim. I'll review the details and call you with any questions," said Pete, as he ushered the younger man from the office. Returning to his chair with a grimace, Pete opened the planning document and settled back to read through the staff report.

Background

BBPI was an infant company, born on January 1, 1984, to provide its parent, BABYBELL, INC., with a position in the advertising and publishing industries by producing high quality, differentiated advertising and informational directories. Its only product at the time of its formation was white and yellow pages directories for the former AT&T operating companies in its region.

BBPI was a wholly-owned subsidiary of BABYBELL, INC., one of the seven regional companies formed in accordance with the mandates of the Modified Final Judgement (MFJ) dated January 21, 1982, which settled the antitrust suit brought by the United States Justice Department against American Telephone & Telegraph. Prior to 1984, employees of BBPI had been members of the Directory Department at Bell Operating Corporation (BOC). BOC had provided local telephone services in its franchised areas, including white and yellow pages directories for its 13 million subscribers, as a wholly-owned subsidiary of American Telephone & Telegraph (AT&T) until divestiture. Following divestiture, BOC continued to provide local exchange telephone services, minus the directories, as a wholly-owned subsidiary of BABYBELL, INC.

Electronic communications in the United States began with the invention

of the telegraph by Samuel Morse in the 1830s. This form of communication grew rapidly in the succeeding years with Western Union emerging by 1866 as the dominant, and often monopolistic, carrier. The telephone first appeared in the United States in 1876, when Alexander Graham Bell filed for the first patent. Elisha Gray followed Bell's filing by only three hours, setting up years of patent disputes concerning who had rights to be in the infant industry.

During those years, Bell's company, American Telephone and Telegraph Company (AT&T), emerged as the dominant firm in the voice segment of the industry, while through a series of settlements Western Union maintained dominance in the telegraph segment. Each firm had agreed not to compete in the other's primary area by 1879, setting up what came to be called a "natural monopoly" industry structure which persisted until 1984.

As a result of the private agreement with Western Union, AT&T bought controlling interest in Western Union's Western Electric Manufacturing Company, made it the sole source of telephone equipment, and was able to successfully gain a foothold in the urban areas, achieving a competitive advantage over firms entering after the expiration of Bell's patent. To beat competition, AT&T refused to sell Western Electric equipment to other companies and would not permit interconnection of competitors to its interstate and urban networks. During this time Bell subscribers increased from 260,000 in 1893 to over 3,000,000 by 1907 when Theodore Vail became AT&T's chairman (Lewin, 1981).

Vail changed AT&T's strategy and increased growth by acquiring competitors, permitting sales of Western Electric equipment to all telephone companies and encouraging interconnection to the interstate network. In addition, Vail acquired a controlling interest in Western Union, putting himself in charge of the dominant firms in both segments of the fledgling industry. As competitors protested, the Justice Department interceded with the Interstate Commerce Commission which, in 1910, had been given regulatory authority over wire and radio carriers. In 1913, AT&T agreed to divest itself of Western Union and to stop acquiring its competitors. AT&T did not, however, stop exploring and expanding its network and range of services.

From its inception, telephone service had consisted of an instrument in a home or business being connected via a particular company's lines to instruments in other homes and businesses. To make a call, the calling party lifted the receiver from the hook and was connected to an "operator" who made the physical connection to the called party. This type of arrangement continued until 1878 when the first commercial switch was introduced in New Haven, Connecticut. For the first time, customers could call within the same town without involving the operator by simply dialing the other party's number - usually 3 or 5 letters or digits. To encourage use of this new feature, the first telephone directory was completed, listing the numbers of all subscribers in a local area. The service proved to be so popular that businesses, wishing to attract new customers, asked to put special messages in the unused spaces, such as the margins, of these directories. Thus began

the sale of advertising space in telephone directories. As the number of subscribers grew, it was no longer possible to satisfy the demand for advertising space in the white pages. R. H. Donnelley in Hartford, Connecticut, was the first company to offer a special section for businesses wishing to advertise. To distinguish between this section and the regular number listings, the company printed the classified advertising on yellow paper. Dated February 21, 1878, and containing 48 subscribers organized under seen headings - "Residences (11), Physicians (3), Dentists (2), Miscellaneous (8), Store, Factories, etc. (2), Meat and Fish Markets (2), Hack and Boarding Stables (2)" (Lazarus, 1984, p. 35) - the term "yellow pages" became so common that telephone companies everywhere were printing their own "yellow pages" for their subscription area. Rates for the yellow pages advertisements were set by the company, not by the state regulatory body; but the revenues generated from yellow pages advertising were used to maintain lower local rates. This cross-subsidy arrangement was an example of what became the backbone of "universal service."

By 1934 Congress had determined that the ICC was ineffective in regulating the communications industry and, in the Communications Act of 1934, established the Federal Communications Commission (FCC) for that purpose. Thus, regulation of a private monopoly, as opposed to government ownership of communications facilities, became the law. The policy encouraged "universal service," expanding the network to all individuals in the nation, at a reasonable cost. The state regulatory commissions welcomed this plan as a way of moving telephone service from

urban into rural communities. Through rate subsidies, some services were priced well above their costs, e.g., long distance, to provide revenues for expanding local service to customers who were far from existing lines. The arrangement was so successful that by 1982 more than 96% of all people in the United States had telephones in their homes. Competition was discouraged except for private leased line service, where AT&T and Western Union offered competing lines for large users, until the 1960s when computers began to be widely used by businesses.

By 1965, when the FCC held its First Computer Inquiry hearings, there was already a blurring of the previous demarcation between the computer and telecommunications industries. During those hearings, the FCC concluded that the regulated monopoly market structure which had developed might not be able to handle the demands of users who wanted to advance computer/communications services. Simultaneously, the FCC moved to permit competition in the terminal and transmission segments of the telecommunications industry.

In the Carterfone decision, the FCC directed that standards be established to protect the AT&T network, while otherwise allowing customers to provide their own terminal equipment. In addition, following up its 1959 decision to permit private use of microwave frequencies, the FCC moved to encourage competition in the interstate market by permitting Specialized Common Carriers to lease their private networks to individuals or businesses for fees.

In 1974 the United States Department of Justice again filed suit against AT&T, charging that its activities had restrained trade and competition. The suit was finally brought to trial in 1981; but a few months after proceedings had begun, the two parties reached a settlement finally designated as the Modified Final Judgement (MFJ).

In the MFJ, AT&T agreed to divest itself of its operating telephone companies throughout the nation while retaining control of its long lines (interstate) network, manufacturing arm (Western Electric), and research and development facility (Bell Laboratories). In return AT&T would be freed from 1956 restrictions which had kept it from entering the computer processing and information markets. The divested operating companies were prohibited from selling their own manufactured terminal equipment, entering interstate long distance markets, or entering the information processing business. As part of the reorganization, the 23 operating companies, which would continue to be responsible primarily for regulated, local exchange service in the states, would be made viable financially by combining them into seven regions. Following the January 1, 1984 date, the regions would be individual companies with no ties to AT&T or to each other except via their 1/7 ownership in the Bell Communications Research Group, designed to provide coordination for national defense and some research and development. Thus, BABYBELL, INC. became the holding company for Bell Operating Corporation's region. (See Appendix A for full text of MFJ.)

During the negotiations between AT&T and the U. S. Justice Department, one of the items of contention was the yellow page product. AT&T argued

vigorously that this very lucrative segment of its business was not a part of the local telephone service which was to be divested. Instead, AT&T sought to keep the \$5.0 billions in annual revenue from the yellow page directories as part of its soon-to-be unregulated businesses. Although not completely successful in its efforts, AT&T was permitted to engage in electronic directory services as part of its freedom to enter the "information services" business. However, traditional directory services were designated as part of "exchange access" under Section III-F and assigned to the operating companies. The former operating companies were prohibited from entering electronic directory services as part of the general prohibition against their entering the "information services" business. However, the newly formed regions, such as BABYBELL, were not excluded from any business as long as they received a waiver from Judge Harold Greene and insured that regulated ratepayers did not subsidize unregulated business ventures. Before approving unregulated businesses, the court often demanded that a separate subsidiary be formed to ensure that regulated and unregulated revenues were separated. It was for this as well as other reasons that BABYBELL decided to establish a publishing and advertising arm via a separate subsidiary. Thus, BABYBELL Publishing, Inc. (BBPI) was formed, with its own president and officers, reporting to BABYBELL's Vice Chairman of the Board of Directors (Appendix B).

Product, Price, Place, and Promotion

BBPI's only products were its 513 white and yellow page directories which it had brought with it when the Directory Department moved from

the regulated telephone company to the unregulated subsidiary of BABYBELL, INC. The white pages consisted of alphabetical listings of residence and business subscribers for a specific geographical segment of the regulated telephone company territory, detailing addresses and telephone numbers as well as more general public service information, e.g., police, fire department, city departments, telephone numbers, telephone company rates, etc. The yellow pages directory covered the same geographical territory as the white pages directory and contained, under various descriptive headings, a free "in-column," alphabetical listing of business addresses and telephone numbers as well as paid advertising messages. In addition, yellow pages had begun to include more "special" information, such as area zip codes and city transportation maps, to make the directory more attractive to users and advertisers alike. Ad prices were based on the various sizes and type styles used. Additional fees were assessed for extra or bold type white page listings as well as for color - red - in yellow pages ads (Appendix C).

As part of its contracting agreement with the regulated telephone company subsidiary of BABYBELL, INC., BBPI agreed to publish the white pages, as well as the yellow pages, for all of the regulated company's markets in exchange for the right to the exclusive use of the regulated company's name, and associated "good will," and after-sales service and billing representation. Under this agreement, BBPI paid a 1984 licensing fee of \$356 million, with annual fee increases of 14.5% through 1989. In addition to its use of the regulated company's name,

BBPI received the list of names, addresses, and telephone numbers for all current BOC subscribers as well as ongoing access to new subscribers and updates associated with address and telephone number changes. From these data, BBPI had built mechanized data bases which permitted it to publish the copyrighted white page directories and make sales contacts for its yellow page advertising directory. Both a white page and a yellow page directory - often combined in one bound volume - were provided to each regulated subscriber at no extra cost upon initial receipt of his telephone and annually thereafter as long as his service continued. Prior to divestiture, a subscriber received a specific number of directories based on the number of telephone sets for which he paid. After divestiture and deregulation of terminal equipment, each subscriber received only one white/yellow pages directory.

BBPI's day-to-day interface system with the regulated telephone company consisted of receiving service orders for all new and changed telephone numbers and addresses via a mechanized data link. The service orders automatically updated BBPI's white page data base. In turn, the service orders for businesses, whether containing new or updated information, were used to update the yellow pages data base. Finally, service orders for new businesses were routed mechanically to the responsible yellow page sales representatives. Using this lead and depending on the size and type of business, either a telemarketing or premise sales call would be initiated during the annual sales campaign.

BBPI's yellow page sales force consisted of 3,000 union-represented telemarketing and premise sales representatives. In addition, sales

contacts in some of its markets were handled through a contract with one of the two leading directory sales firms, L. M. Berry. Salaries for company sales representatives were set by a collective bargaining agreement which would expire in August, 1986. Salaries accounted for approximately 50% of a sales representative's wages, while commissions accounted for the remainder. It was not uncommon for sales personnel to be able to earn \$25,000 annually under the commission structure, which rewarded each new or increased advertising sale on a percentage-of-revenue-earned basis. For example, a sales call which resulted in only maintaining the current advertising level would earn a commission of 5% of the increased rate (rates have traditionally increased 15-20% annually), while a call which increased the amount of new revenue through sales of a larger ad or one with special features, such as red highlighting, would generate a commission of 15% or more of the new billed revenue. Sales commissions on advertising sold through Berry were generally at the 20% level.

BBPI had an intensive screening and hiring policy which permitted it to secure many college graduates for its sales force. Requirements included previous sales experience and successful completion of a rigorous training course. Those who were not successful in completing the sales training were dismissed. As part of the training, new sales representatives were schooled in techniques specifically designed to help them listen to and understand the needs of a variety of advertisers while successfully overcoming objectives to new rates.

The type of advertiser from which BBPI received 82% of its revenue was

local in terms of its geographic scope, offering services - plumber, attorney, beauty salon - to a generally segmented part of the total yellow pages directory audience, e.g., the advertiser's primary customer base was situated in Needham and Wellesley, even though the New England yellow pages in which it advertised covered 10 suburban communities. The majority of the small business' advertising budget was spent on the yellow pages medium primarily because

- his competition was listed there
- his new clients came largely from those moving into the area with no previous contacts for his service or those disgruntled with his competitors
- it was relatively inexpensive for the 24-hour-a-day, 365-days-a-year coverage provided when compared to newspaper, radio/television, or even direct mail
- he believed the circulation numbers and the marketing research which showed universal awareness of the yellow pages by adults.

Contacts with these advertisers were made annually during the sales campaign. Scheduling of the campaign for various directory markets was determined by the annual publication schedule for each updated white pages directory. Approximately six months before directory "close out," i.e., the date when the completed listing had to be ready to send to the printer to insure meeting the specified publication schedule, the appropriate sales force and its managers were told of the desired revenue objective level. This new revenue level was based on the "annual commitment" view of the budget, which specified the total net income to be provided to the parent company in the form of "dividends" on BBPI's stock, 100% of which was held by BABYBELL, INC. Generally the

commitment view represented a 15-20% increase over the previous year's earned net income, based on historical advertising rate increases.

Once the revenue goal was set, a campaign of an appropriate length of time - two weeks or two months - was launched. Sales calls on all existing and new advertisers in the geographical area of the campaign were completed either by premise visits or telephone. Sales representatives were randomly assigned to their sales contacts from year to year, partially to preclude perceptions of unfair advantage in meeting sales commitments on "easy" versus "hard" sales accounts and partially to prevent client-salesman rapport which might interfere with the willingness to push sales in spite of the large annual rate increases. In addition, the company felt little need to match sales representatives with clients, since the salesmen were not responsible for servicing the accounts. Indeed, once the sale was made, the sales representative moved on to another campaign to canvass another group of advertisers, while adjustments or complaints on the sales were handled via a separate service/adjustment group at BOC.

In preparing for a typical sales effort during a campaign, the sales representative would review the customer's current ad to determine possible selling points. One of the sales techniques included asking a customer to insure that his ad fulfilled the needs of clients who used the yellow page directory. Citing statistics from a recent national yellow page usage study, such as Appendix D, sales representatives indicated that an ad should feature a firm's

reliability: years established, size, company policies, and national brands.

authorized products/services: well-known products, names, services.

special features: hours, promptness of service, parking, credit terms.

completeness of line: products, services, range, variety, special types, availability.

illustrations/slogans: image building, telling a story, gaining attention.

location: area served, nearness, and convenience.

Using the customer's own assessment of how well his current ad would meet these criteria, the sales representative proceeded with his suggestions for improvements. Sales personnel were trained to listen for a customer's special area of concern, e.g., competitors who have larger, more informative or colorful ads, as a clue to what the client required in his yellow pages advertising. Frequently, the advertiser's concerns about the size of his competitors' ads were leveraged by the sales representative into increased advertising revenues. Expressed concerns about whether the advertising was effective would be met with specialized user studies made by the company to demonstrate the effectiveness of various sizes/content/color in the client's particular category (sample in Appendix D). Finally, the salesman closed the contact by having the client indicate the desired changes, promising to return via mail the revised photocopy of the changed ad and having the client sign the order form approving the sale.

Upon finalizing the sale, the sales representative would return to his office, complete his sales report, and prepare the agreed-upon changes

in the ad which had to be forwarded to an outside firm preparing the copy for the new ad. At the end of each day during the campaign, the group sales manager would hold a meeting at which each sales representative announced to his peers the amount of revenue generated that day and posted the office sales board with his earned revenue compared to his objective. This constant attention was used to motivate less effective sales representative while recognizing those who were successful. This type of recognition was perpetuated through annual sales meetings and awards for outstanding sales success.

Completing the sales campaign ended the first phase of BBPI's business. However, the production effort, which includes coordinating outside printers, photocopiers, and distributors of the finalized directories as well as insuring the quality of the directory data bases, special information pages, and cover design for 513 directories, completed the annual cycle.

By American business standards, BBPI was very successful at its business! At the end of its first year of operations, BBPI had produced a net income of \$41 million on sales revenues of \$682 million. Its return on sales was 5.3%, with a gross margin of 42%, operating margin of 16%, and a return on assets of 23%. By excluding the amount paid for "good will" and the use of the regulated company's name, the return on sales was actually 12.5%, with a gross margin of 84% and an operating margin of 63%, which was slightly above average for the industry.

Revenues sources for BBPI included:

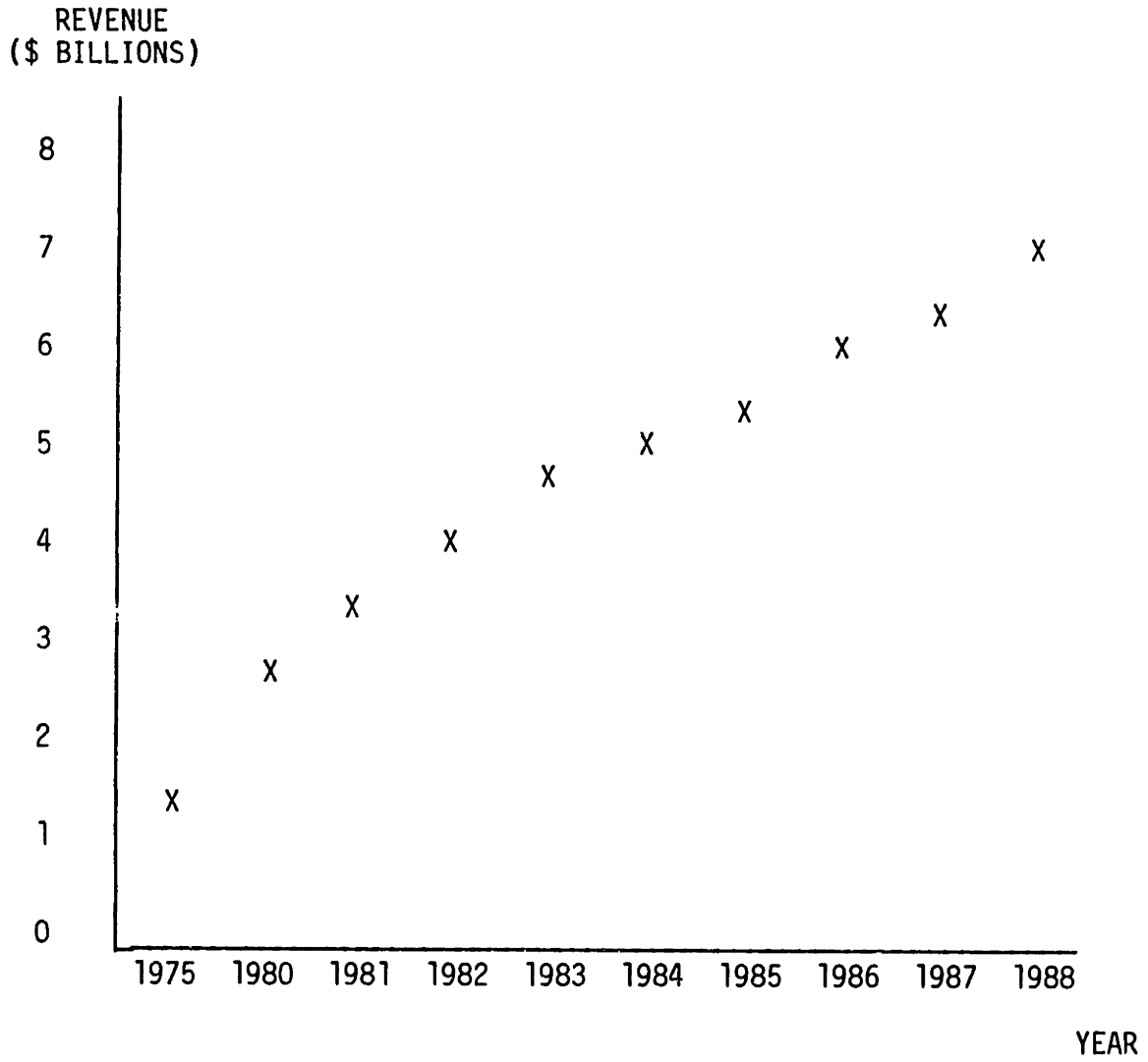
Local White Pages Advertising	9%
Local Yellow Pages Advertising	82%
National Yellow Page Advertising and Commissions	8%
Miscellaneous	1%

Local white page advertising included such products as bold type, while local yellow page advertising included all copy resulting from sales contacts with businesses in the local geographical area - or scope - of the directory. National Yellow Page Services (NYPS) included revenue from national accounts such as Sears, Eastern Airlines, etc., which were placed by the company's primary advertising agency through a centralized NYPS customer representative responsible for insuring that the ad was placed in directories across the country, without the primary agency or the company having to contact each directory sales force individually. BBPI acted as the contact for some national accounts and received commissions on the ads placed for its accounts in other directories.

Industry Perspective

Prior to the 1984 divestiture agreement between AT&T and the U. S. Justice Department, yellow pages advertising had been an industry dominated by the Bell System. AT&T and its operating companies collected 90% of the revenues in the \$5 billion market, a market which had experienced a 15% compound annual growth rate between 1975 and 1984. Its product life cycle curve was similar to that of many other industries long dominated by a single firm (Figure 3). By 1984, directory revenues had become 5.2% of all telephone industry revenues (Table 1). Compared to other advertising media, only television can approach the astonishing growth rate exhibited by the yellow pages.

Figure 3
Product Life Cycle (Industry)
Yellow Pages Market



----- projected figures

Source: Communication Trends, Inc.

Table 1
 Yellow Pages Market Growth, 1975-84
 (\$ millions)

<u>Segment</u>	<u>1975</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1973</u>	<u>1984</u>
AT&T/Bell System	1,085	2,450	2,695	3,375	3,755	4,095
All others	215	490	545	670	750	910
Total	1,300	2,940	3,240	4,045	4,505	5,005

Source: Communications Trends, Inc.

Indeed, yellow pages advertising outstripped all other print media between 1980 and 1984 (Table 2). Projected growth in the yellow pages and related directories was expected to average from 10% to 14% through 1988. The increase in revenues between 1984 and 1988 was expected to reach 60% (Table 3).

After divestiture, with the seven regional companies assuming responsibility for yellow pages advertising, the industry was fragmented, with 10 major players, including former AT&T companies and independent or non-Bell affiliated telephone companies, none of whom controlled more than 15% of the market (Table 4).

While the former AT&T operating companies dominated the yellow page directory publishing business, there were many other participants, including L. M. Berry and R. H. Donnelley (a subsidiary of Dun & Bradstreet), the two largest contract directory sales agents. During the years dominated by AT&T, sales agents received sales commissions of 20-25% of gross billings. Acting as contract publishers, however, could increase their revenues to 50% of gross billings, a strong incentive for companies like Berry and Donnelley to enter the market in a repositioned capacity. Donnelley's yellow page revenues for 1984 totalled \$240 million, while Berry received \$175 million. Principally, Donnelley dealt with New York, Pennsylvania, and Illinois, while Berry had contracts with United Telecom, Wisconsin Bell, and Ohio Bell as well as AT&T for its directory of toll-free numbers.

The remaining independent publishers involved in the yellow page

Table 2
 Growth in Yellow Pages Revenues v. Other Print Media
 1980-1984

<u>Segment</u>	<u>1980</u>	<u>1982</u>	<u>1984</u>	<u>% Change 1980-84</u>
Newspapers	17,963	21,280	26,690	48.6
Periodicals	8,965	11,525	14,661	63.5
Books	6,114	7,723	9,362	53.1
Yellow Pages	2,940	4,045	5,005	70.2
Total, 4 segments	35,982	44,573	55,718	

Source: Communication Trends, Inc., based on U. S. Commerce Department, other sources.

Table 3
Forecast in Yellow Pages and Directory Revenues
1984-1988
(\$ millions)

<u>Year</u>	<u>Revenues</u>
1984	5,005
1985	5,700
1986	6,465
1987	7,075
1988	8,025

Source: Communications Trends, Inc. forecasts.

Table 4
 Largest Yellow Pages Publishers Ranked by Revenue, 1984
 (\$ millions)

<u>Company</u>	<u>Total Telephone</u>	<u>Directory</u>
Southwestern Bell	7,191	740
Bell South	9,519	635
Pacific Telesis	7,824	530
Ameritech	8,347	530
GTE	9,065	515
US West	7,280	511
Bell Atlantic	8,091	510
Nynex	9,507	393
United Telecom	2,145	75
Contel	1,550	61
Total, 10 largest	70,519	4,500
Total, industry	96,000	5,005

Source: Communications Trends, Inc., compiled from company reports and estimates.

directories were generally small firms with revenues of less than \$5 million. During 1984-85, Donnelley enhanced its position in the industry by acquiring several small independents, propelling itself into the position of being the largest independent publisher of directories. Table 5 details the share of revenues by type of publisher.

The AT&T divestiture not only geographically segmented the national market significantly, but it also opened up the way for competition among the newly established regions. According to Eli Noam in The AT&T Settlement: Terms, Effects, Prospects:

...the Department of Justice believes that the provision of a listing of the phone numbers and addresses of subscribers and the related directory assistance functions are inherent parts of exchange telecommunications. Provision of advertising services, by means of the Yellow Pages and similar directories, is not, as such, inherent in exchange telecommunications... Each BOC, however, retains the rights inherent in its file of telephone subscribers including machine-readable listing and copyright interests in the printed alphabetical directory. Hence, by granting use-specific licenses for the listings, including use for the purpose of compiling and publishing Yellow Pages, each divested BOC effectively will have the ability to sell the Yellow Pages "franchise" to the highest bidder through whatever mechanism or pricing scheme the divested BOC or appropriate regulatory commission deems appropriate. The BOCs will also retain the ability to auction off the right to have a Yellow Pages directory published as a physical part of its white pages service. Consequently, each BOC would have the ability to retain all of the above-competitive profits that presently are derived from the Yellow Pages income to reduce the cost of local telephone service.

(pp. 29-30)

Permitted by the consent decree to enter markets outside their regions, many of the former Bell System companies began to make inroads. To

Table 5

Share of Yellow Pages Revenues by Type of Publisher, 1984
(\$ millions)

<u>Category</u>	<u>Revenues</u>	<u>Share</u>
10 largest phone companies	4,500	90.0%
All other phone companies	330	6.6%
Independent publishers	175	3.5%
Total	5,005	100.0%

Source: Communications Trends, Inc. estimates.

separate regulated and unregulated revenues, most of the seven regions elected to establish separate subsidiaries for their publishing entities, arriving at a variety of arrangements for the publishing fee and ancillary services (Table 6).

Several of the companies immediately announced entry into the specialty directory market, e.g., Southwestern Bell's Silver Pages and Ameritech's purchasing directories. Others, such as Pacific Telesis, announced expansion into general publishing, such as city tourist guides. Before long, geographical expansion into other national markets began, with U. S. West acquiring Trans Western Publishing - publisher of directories in San Diego and Florida, Southwestern Bell acquiring Mast Advertising and Publishing - a \$67 million publisher of directories in 42 states, and BellSouth acquiring TechSouth - a firm selling telephone directory layout and typesetting services. Southwestern Bell even announced a foray into international directory markets with its contract to sell Yellow Pages advertising for Australia's telephone company.

Within a matter of months, the entire structure of the yellow pages industry changed drastically. Coincident with the changes came the threat of an even more menacing future with the growth of electronic marketing. In Electronic Marketing, Lawrence Strauss detailed the various alternatives and advantages of media such as teletext, videotext, and electronic yellow pages. While still in their infancy, these media hold much promise for advertisers more and more interested in moving from mass to targeted marketing. According to Strauss, "videotext provides the user with unique 'on-demand' video capability to

Table 6
 Arrangements for Directory Publishing Activities of Selected Other Companies

	<u>Ameritech</u>	<u>Atlantic(a)</u>	<u>BellSouth</u>	<u>NYNEX</u>	<u>Telesis</u>	<u>Southwestern Bell(b)</u>	<u>US West(c)</u>
Separate Subsidiary							
White pages	Yes	No	Yes	Yes	No	Yes	Yes
Yellow pages	Yes	No	Yes	Yes	No	Yes	Yes
Nontraditional	Yes	No	Yes	Yes	Yes	Yes	Yes
Structure of Publishing Fee							
Fixed fee	Yes	No	No	Yes	No	No	Yes
Percent of revenues	No	No	Yes	No	No	No	No
Services included in Publishing Fee							
Billings	Yes	n/a	Yes	No	n/a	Yes	Yes
Collections	Yes	n/a	Yes	No	n/a	Yes	Yes
Listings	Yes	n/a	Yes	No	n/a	Yes	No
Other Service Contracts							
Listings	n/a	n/a	No	Yes	Yes	n/a	Yes
Other	Yes	n/a	Yes	Yes	Yes	Yes	Yes

- (a) Bell Atlantic's directory activities are handled by departments of its telephone operating companies (TOCs).
- (b) Southwestern Bell has established five separate directory subsidiaries engaged in various directory activities.
- (c) US West has established a separate directory subsidiary reporting to its publishing subsidiary.
- (d) GTE publishing fees range from 37 percent to 64 percent of revenues; the average publishing fee percentage is 55 percent.
- (e) Other services could include pension and benefits management, billings and collections, real estate management, personnel and related human resource activities, financial management, planning, other general and administrative support functions.

access large amounts of information and to take immediate follow-up action. No other medium can make this claim." Such a claim seems amazingly close to that made by sellers of yellow page advertising who proclaim that "the customer looks here when he is ready to buy." Not surprisingly, the profile of the yellow pages user (Appendix E) is the same as that projected for the future videotext market.

Internationally, France's Teletel system has begun to show what consumers will do with a teletext system when they don't have to pay for the terminal. As a way of luring its customers into the electronic age, Teletel is giving the terminals to its customers as a means of getting them to try its computerized services and two way-communication offerings. With 1.3 million terminals installed, the French state-owned telephone system has created its own market. Its most widely used service, the electronic directory, receives 8 million calls a month. Other services have seen an increase in usage along with the number of free terminals in the hands of the public. One of its most popular services is what has become an "electronic singles bar," originally a message services offered by a Paris newspaper, Liberation. Currently all Liberation services gross \$4.3 million, with a 25% profit margin (Wall Street Journal, February 24, 1986, p. 31D). Clearly this promises to be a very profitable business.

Videotext is less of a present threat, however, because it has yet to define its niche within the existing media mix. Nonetheless, its potential power as a classified advertising vehicle can be demonstrated by the defensive rush of more than 15 national newspapers to participate

in joint ventures trialing or developing the medium. CompuServe and the Newspaper Advertising Bureau have initiated a national classified advertising service whereby CompuServe subscribers can access information on jobs, homes, and cars. Strauss speculated that the use of videotext for classified advertising - either by newspapers or "electronic yellow pages" - may be the way to introduce users to the videotext world, giving them a reason to enter it. Ads can be updated immediately, sparing buyer and seller inconvenience associated with print; listings can be indexed and cross-referenced easily by key word searches. Time and monetary savings to the user are tangible. In addition, the limited graphics associated with current videotext technology, which discourage advertisers who normally advertise on television, do not affect classifieds or "yellow pages," increasing the possibilities of early development of videotext for this purpose. Nonetheless, videotext has a long way to go before it replaces the yellow pages print medium, which is unique among advertising forms:

In its distribution, the yellow pages is a mass medium, disseminated from one to many as is a T.V. show or a newspaper. But, in its use, the yellow pages is precisely the contrary of a mass medium that everyone consumes at about the same time in about the same way [making it the ultimate in targeted advertising].

(p. 290-1)

Newspapers have obviously not been alone in their desire to enter the lucrative electronic marketing arena. Telephone companies have argued that "going electronic with their publications is their birthright in an electronic world - in effect an extension of their multi-billion-dollar Yellow Pages publishing business" (Strauss, 1984, p. 105). It is clear

that newspapers would be concerned with the ability of electronic yellow pages publishers to update their advertisements daily, rather than annually, since they might well siphon off revenues now garnered by the classified ads in daily papers. In 1981 the American Newspaper Publishers Association successfully blocked an attempted electronic yellow pages trial by AT&T in Austin, Texas. Citing among their reasons AT&T's plan to offer "sales/special ads designed to provide supermarkets, department stores and other businesses with a vehicle to highlight merchandise on a frequently changing basis," the publishers were able to delay a decision until the courts acted via divestiture to block former Bell companies from entering the information business, including electronic classified or "yellow pages" publishing (Strauss, 1984, p. 106). AT&T, however, free to enter any information services business, remains a player in the developing electronic marketing field, as do other firms not affected by the AT&T divestiture.

Some companies have begun to offer the "yellow page" type listing information over the telephone, even before videotext is available. Classified Information Services, Inc. (CLAS), in Houston, Texas, is offering a 24-hour, 7-day-a-week service which is free to consumers. Advertisers pay CLAS for promoting their firm when consumers call for the name of a particular type of business. If, for example, a consumer called CLAS asking for a plumber, the CLAS operator reads the name, address, and telephone number of the first plumber on her list as well as up to 300 words of advertising copy. CLAS emphasizes the currency of its information with advertisers, compared to printed yellow pages which

may be out of date at the time of publication. Another key selling point with advertisers is the knowledge that their ads are bringing in customers, while with printed yellow pages they must assume they are getting referrals as a result of their advertising dollar (Video Print, May 9, 1983, Volume 4, Number 9).

Actually on-line is an electronic yellow pages service offered by Market Data Retrieval (MDR) in Westport, Connecticut. According to MDR, the service provides a listing of 4,800 yellow page phone directories plus data from over 1,000 other sources accessible by town, industry, or company. Claiming to have data on more than 10 million businesses in the U. S., MDR suggests a variety of uses for the electronic directory, including telemarketing, prospect lists, identifying potential employers in a particular town, developing fund-raising lists, and finding suppliers of various services, e.g., theatres, museums, hotels, etc. While the service does not provide advertising copy along with its listings, it does include related business information such as size, type of business, form of business, and trade names.

Internationally, Canada has been publishing electronic yellow pages since 1981. With a database of 7,000 listings and advertisements from its Toronto and Quebec printed directories, Bell Canada appears committed to the medium by offering a variety of services through videotext, including electronic yellow pages (Strauss, 1984).

Originally projected to reach a population of 20 million by 1988, electronic yellow pages growth has been revised downward to recognize

the slower-than-expected proliferation of videotext systems and home computer terminals. Experts now project revenues of \$3.5 billion by 1994, with 1.1 billion coming from consumers and the remainder from advertisers (Forbes, 1984). In spite of the slow growth, however, advertising specialists are convinced that electronic marketing has a secure place in the future. Businesses limited to only the print medium may have difficulty expanding in the future.

Current Strategic Issues

BBPI had, from its inception, followed a business strategy of holding and enhancing its position in the advertising business by producing high quality, differentiated directories, thus legitimizing its higher prices when compared to the few competitors who had, prior to divestiture, attempted to penetrate its markets. Located in a growing region of the U. S., BBPI felt comfortable with its potential for meeting the increasing "income commitments" necessary to finance its shareowner's (BABYBELL, INC.) needs for cash to further entry into a variety of markets outside the regulated telephone business. As BABYBELL's only profitable, unregulated business, BBPI received a great deal of pressure to meet annual budget commitments, which generally meant an increase of 15-20% profit over the previous year. This had been the way the business operated prior to divestiture. Indeed, revenue and profit projections (Appendix F) through 1989 were even more ambitious than they had been in the past.

Among BBPI's key goals was increasing profitability (ROE) from 24% to

48% by 1989. Reducing operating/production costs with an eye toward being the low-cost producer of high-quality directories, entering new markets both geographically and with new products, and seeking increased relaxation of the rules and restrictions imposed by the regulatory environment were strategies to achieve the goal.

The goals and objectives had seemed within easy reach at the time the company was incorporated. The marketing strategy to meet those goals was well understood by the sales force: raise the price of the advertisements by the required amount and be successful in getting the advertisers to subscribe as they had always done in the past. However, no one had foreseen the dramatic changes which the industry underwent during 1984-85. As a result of those changes, some significant issues had been identified during the first two years of the company's operation which made it necessary to reconsider its strategic thrust.

Initially, BBPI hurried to establish new sales offices outside its region, as it prepared to enter the specialty directory market and to begin the process of establishing a national presence. What it found out, however, was that successful new products were difficult to introduce, with sales being very slow for a product the advertiser had never seen. Accustomed to overseeing the sales force from a close distance, BBPI managers had difficulty keeping in touch with and control of employees located in distance cities, especially with information systems designed for a limited regional approach to capturing revenues and costs. Finally, BBPI's top officers, deciding that the venture was not going to succeed the way it had been originally planned, closed the

remote offices and centralized the effort at headquarters. The initial product was a money loser; BBPI would not attempt to publish it again. BBPI had learned, however, that it needed much more experience before entering its next new market.

BBPI was also worried about its relationship with its contract suppliers. For years, BBPI and its predecessor Directory Department had contracted most of the actual publishing, photocopying/design work, and directory delivery with several firms in its own region. BBPI management was alarmed at the number of firms being acquired by other regions and feared that soon its main suppliers would be subsidiaries of its largest competitors. Already, Southwestern Bell had purchased Mast Publishing, while U. S. West acquired Trans-Western Publishing. It appeared that BBPI might soon be the only large player without its own publishing arm. Some of the scenarios envisioned steep price increases for publishing the large directories typical of BBPI's metropolitan markets, while others imagined intolerable schedule delays in favor of the publisher's parent rather than its customers. The entire area of backward integration, including design/photocopying and publishing, demanded serious consideration.

BBPI had also begun to have difficulty with its delivery contract agent. For years, the agent received the finalized directories for BBPI's region, hired the necessary labor to disseminate the directories, and generally handled all problems associated with storage and transportation. Since divestiture, however, the agent had had more and more difficulty meeting schedules because of its expansion into other

markets. In addition, delivery of directories to new regulated company subscribers continued to be a problem, as fewer and fewer regulated company installers - who had traditionally delivered directories to new subscribers - visited customer premises. Thus, reliable delivery was becoming a source of concern to BBPI managers, who recognized that the company's continued success in the yellow pages advertising business rested on its ability to provide access to the 13 million subscribers in its region.

Competitors were not new to BBPI or its predecessor Directory organization. For many years, the regulated company directory department had seen a variety of "fly-by-night" firms attempt to make market inroads. With very low barriers to entry - a few salesmen and a printing contract could put a company in business - anyone could go to local businesses and sell advertising. There were always businesses which would subscribe because of the lower price offered by these firms; but after the quality of the directory - if one were printed at all - and its limited circulation were recognized, the subscriber would always come back to the telephone company yellow pages. Firms would be born and die in one or two years, with no impact on telephone company revenues. Since divestiture, however, the competitors had changed. Suddenly, there were well-organized, large firms entering the region. Mast Advertising, the Southwestern Bell subsidiary, and R. H. Donnelley, the Dun & Bradstreet subsidiary, could only be characterized as capable, knowledgeable firms which could indeed have an impact on BBPI's market share. These large competitors were not BBPI's only worry. Since

divestiture, independent "cutters," frequently previous yellow pages advertising salesmen, called on advertisers offering, as independent consultants, to "cut" their yellow pages advertising bill in half. In return for his service, the "cutter" would take a fee equating to 30% of the "saved" expenditures. Advertisers were confused by divestiture in general and, when approached by someone they might know from the "old days," often acquiesced to the "cutter's" suggestion, cutting BBPI's revenue streams.

Competitors traditionally had entered the market by "rescoping" the local telephone company's yellow pages. For example, they would identify a "community of interest" among several outlying towns surrounding a metropolitan area and provide a special yellow pages directory for those communities only, as compared to the giant telephone company yellow pages book which included all advertisers in the metropolitan area. BBPI had long ago entered this market as a defensive strategy as well as a way of increasing revenue. Still, it was less flexible than the smaller firms, "rescoped" less frequently because of cost and commitment of standardization to BOC, and primarily considered such activity a byproduct of its main directory business. Compared to the \$70 million it received from its main metropolitan directory in the Roosevelt market, the \$2 million from the surrounding suburban directories was minimal. As long as the efforts of competitors remained fragmented, BBPI could see little, if any, revenue effects. Thus, its competitive response had been primarily reaction, perhaps performing a rescoping study.

Generally, approaches used by competitors included:

Undercutting price, often by 40-50%.

Running sales campaigns immediately prior to BBPI's planned campaign (the dates were public knowledge and advertisers were frequently confused, not realizing that there was more than one "yellow pages." Indeed, failure of AT&T or anyone else to register the yellow pages "walking fingers" as a trade mark is a headache for BBPI as well as its advertisers).

Segmenting geographical markets by scope and distribution policies.

Selling their "superior" circulation in a particular market of interest to the advertiser.

Claiming superior quality in their directory, such as graphics and special interest pages.

Seeking placement of their directory in commercial establishments, such as hotels and restaurants.

Selling advertising on a cash advance, non-refundable basis to lock in the customer (BBPI billed monthly for its revenue and would make adjustments for errors in copy).

Emphasizing their interest in the advertiser - sending the same representative every year, having the representative "drop by" outside the campaign dates and act more like a personal service representative - and their flexibility compared to BBPI's more traditionally heavy-handed sales approach.

These practices were well-known to BBPI's managers; but because no single competitor had ever made significant headway, BBPI generally chose to ignore the activities and continue its "business as usual" activities. Even the entry of Mast and Donnelley had not caused BBPI much concern at first. When the independents announced that they planned to publish competitive metropolitan directories, as well as suburban directories, BBPI managers in the initial markets expressed

alarm; but not until the results of the campaign in the Bayside metropolitan area became known did BBPI's officers begin to recognize the extent of the potential incursions which the upstarts might make.

Bayside was one of BBPI's most lucrative markets in 1984, accounting for \$80 million in revenues from the metropolitan yellow pages and ancillary white page advertising alone. Additional revenues from suburban directories brought the total market value to \$86 million. Revenue goals for the 1985 campaign were set at \$99 million, with \$92 million expected to come from the metropolitan campaign, a 15% increase.

Bayside and surrounding areas had been growing at a rate of 8% annually, with tourism, banking, and construction - commercial and residential - heading the list of major industries. BBPI managers felt comfortable with the 1985 goal as they prepared for the upcoming campaign, even though Donnelley had just published its initial, competitive metropolitan directory.

As the campaign got underway, however, reports from sales representatives began to create concern. Advertisers were clearly confused. Many said that they could not afford to advertise in two or more metropolitan directories. Many were angered by what they perceived as multiple sales visits. Many had believed that they were advertising in the yellow pages by placing ads with Donnelley, only to learn that what they had traditionally known as the telephone company yellow pages was a separate product. One woman vehemently declared that the state shouldn't let more than one yellow pages directory be published. Other advertisers touted the considerable price advantage they got with

Donnelley, gleefully exclaiming that at last they had someone to deal with besides "a monopoly" which did not care about customers and charged outrageous prices. And revenues continued to underrun expectations.

Scrambling managers moved to counteract some of the price disadvantage by bundling offers, such as a large ad at the regular price with a free small one under another heading. Printed materials extolling the advantages of advertising in the product most used by consumers in the area - the telephone company's yellow pages - were handed out freely. Finally, salesmen found that in many cases they really had to spend much more time with the advertiser to secure approval and close the sale. The advertiser had in many cases already begun to exercise the increased power provided by the entry of serious competitors.

By the end of the Bayside campaign, revenues had increased only 6% instead of the expected 15%, a severe blow to an organization accustomed to meeting and exceeding its sales goals. BBPI executives recognized that to maintain and increase the revenues it had been able to initially capture, Donnelley's directory would have to be perceived as the one preferred by the advertisers' end users. With a strategy of providing quality, differentiated products, lower prices, and bargain packages, the new competitors could prove to be formidable opponents when backed up by their publishing skills, sales expertise, and financial resources.

In addition to dealing with competitors more than equal to the task of market penetration, BBPI found that all was not well in the regulatory arena. After divestiture the state regulators were left with a serious

problem: how to preserve universal telephone services and, correspondingly, low residential rates when pressure to remove traditional subsidies was being intensified. Already, the Federal Communications Commission had deregulated terminal equipment; interstate exchange carriers, like AT&T, MCI, and GTE, were already decrying the excessive burden they carried by being forced to pay access charges which subsidized local rates. Many of the carriers threatened bypass of the local telephone network, proposing to connect directly to the premises of lucrative business customers. Intrastate long distance rates, set high to subsidize local rates, were under attack, as the public called for reduced state rates and new firms daily petitioned state public service commissions for permission to offer intrastate long distance service below rates set for local telephone companies. From the state regulators' position, divestiture had let competition get its foot in the door; and the pressure to eliminate the door completely was increasing immeasurably.

As either elected or appointed officials charged with insuring that consumers received good service at reasonable prices, while authorizing, but not guaranteeing, a "fair rate of return" to the regulated telephone company, state regulators were constantly bombarded by pressures from a variety of groups. Residential customers wanted their rates low; business customers did not want to subsidize residential rates, asking that their rates be lowered; telephone companies wanted to increase their rates of return because of increased business and financial risks associated with the divested environment. Harried

regulators were looking for any source from which they could elicit funds to meet the needs of their various constituencies. Yellow pages advertising revenues were such a source, according to most regulators!

In spite of the separate subsidiary arrangement employed by most of the regional companies, state regulators still sought to impute revenues earned through advertising for use in subsidizing residential rates. Certainly the publishing or "right to use" fees charged by the telephone companies could continue to be used as a subsidy. Many regulators claimed, however, that all advertising revenues belonged to the local telephone companies. Several state regulators in BABYBELL's region had already reduced the amount of rate relief granted to BOC by the amount of BBPI's advertising revenues commissioners said should be imputed. It was not enough that 48% of BBPI's revenues were already going to BOC. Thus, BBPI was beginning to encounter increased pressure from BOC to provide more than the agreed-upon publishing fee for the right to exclusive use of its name on the various directories published by BBPI. If state regulators continued the practice of reducing rate request increases by the amount of the advertising revenues generated by BBPI, executives could foresee that BOC's rate of return to its shareowners would fall, forcing the company to consider the possibility of accepting bids for the right to publish directories using the telephone company name. By awarding the bid to the company willing to pay the most for the contract, BOC could protect its own rate of return while blunting the attack of the state commissions. Thus, BBPI found the very heart of its business at risk.

In the area of cost controls, BBPI faced a major challenge in 1986. Its labor contract with the Communications Workers of America (CWA) would expire in August, giving BBPI its first opportunity to bargain on the wage rates of its employees. All previous bargaining had been centralized at AT&T, with local bargaining sessions held on local issues only. Since the CWA was bargaining with each subsidiary of BABYBELL separately, BBPI might have a real chance to pick up a competitive advantage on the other regions. Executives realized that the process could be a double-edged sword. If other regions were more successful in bargaining, they might succeed in securing a competitive advantage. Already BBPI production managers were planning on how to complete schedules for late summer directories early in case a settlement could not be achieved.

Finally, BBPI was faced with the reality of technological changes in advertising media which could well affect its future earning. BBPI was forced to watch the proliferation of teletext/videotext trials by companies searching for means of syphoning off its advertising revenues. With some experts, e.g., W. J. Salmon, speculating that by 1990 25% of all classifieds or yellow page-type advertising revenues could come from teletext/videotext systems, BBPI executives had begun to worry about the viability of yellow pages advertising as the sole or even primary business on which they based the future existence of their company.

Epilogue

Pete Powers put down the planning document, arose stiffly from his

chair, and walked to the large plate glass window overlooking the office park in which BBPI's offices were headquartered. Of the 32 years he had spent in the directory business, Pete could remember none which had been as pivotal as 1986 promised to be. The direction which he and president Bill Denson laid out for BABYBELL's vice chairman next week would determine the future success or failure of what had always been an extremely profitable business. Pete stared at the brown landscape and bare trees for an indeterminate amount of time, lost in thought as he searched for the position he wanted the firm to assume. If Jim were correct in his belief that the yellow pages were a dying breed, how long could BBPI keep its revenues at current levels? Jim had mentioned marketing strategies to extend the life of the print medium while BBPI diversified into other businesses. But what businesses? What business did BBPI know other than directories?

The ringing telephone interrupted his reverie. Pete listened silently as his secretary advised that the time for his meeting with Bill Denson had arrived. Sitting with the telephone in his hand, Pete struggled with the desire to postpone the discussion. Finally, he picked up the document and walked out the door. He knew what BBPI had to do. Now if he could just convince Denson!

CHAPTER 5 ANALYSIS AND CONCLUSIONS

At the end of 1985, BBPI found itself in a position of being forced to reconsider its previous strategic posture in light of the external environment it faced. With the major players unleashed and moving aggressively to widen their spheres of influence, BBPI recognized the need to move quickly in order to become a dominant company in the industry. Both short-term and long-term strategic issues faced the company as it looked ahead to 1986. The following analysis of the alternatives available to BBPI executives uses the product life cycle concept as the basis for developing marketing strategies to counter competitive initiatives, cope with a changing environment, and position itself for the future.

Life Cycle Stage

Based on its long history, the yellow pages market in 1984 could be designated as a mature one. In assessing its position, one notes characteristics typical of the mature life cycle as identified in Chapter 3. Since 1975 the industry's rate of revenue growth had remained steady at 15% annually, with future projections of 10-14% annually. Few new companies had attempted to enter, and the same firms had dominated in their particular segments for a number of years. Generally stable supplier relationships had been developed as a result of the dominant role of AT&T and its operating companies. The limited competition that existed had been based on geographic scope, with

additional segmentation taking place in the proliferation of specialized directories for business-to-business advertising. Companies in the market had emphasized solidifying end-user acceptance through high product quality, "new features," e.g., community interest sections, red print, and convenience, e.g., "Let your fingers do the walking through the yellow pages."

Traditional goods marketing strategies to deal with the mature stage of a product's life cycle include:

Expanding the market, i.e., convert nonusers, enter new segments - geographic and demographic, convert competitors' customers, promote more frequent or varied usage, increase the product line.

Modifying the product's characteristics, i.e., improve quality, add features, enhance the style or aesthetic appeal, substitute depth for breadth of product line, cut out frills.

Changing the marketing mix, i.e., reduce prices, introduce new distribution channels, increase advertising and promotion, increase the number or quality of sales personnel, improve or enhance after-sales services, allow easier or different credit policies.

These strategies can be both offensive and defensive in nature, depending on the position the product occupies in the industry, e.g., leading seller, second position, niche player. In assessing the application of these strategies to BBPI's situation, one must remember its dominant position in its regional markets, its "equal" market share position in the national yellow pages arena, and its nonexistent position in the expanding "specialty directory" market.

At the end of 1985, BBPI seemed to fit best in the "growth maturity"

phase of the mature life cycle stage, in which it continued to grow but at a reduced annual rate. Until its experience in the Bayside market, BBPI had encountered little difficulty in achieving annual revenue increases of 15%. Its 90% market share seemed impenetrable. Its corporate thrust of providing highly differentiated, higher priced products had worked well in its first 18 months of operations. As the dominant firm in its region, BBPI would be expected to have significant advantage over any entering competitors:

- Product quality and position (no effective substitutes)

- Experienced, proven sales force and management

- Weak, stable suppliers

- Powerless buyers (because of few competitors)

- Dominant market share

- "Bell" name recognition

- Mechanized production systems

- Strength of financial backing

Areas of weakness which might be exploited by competitors included:

- Sales versus "market" driven legacy of regulated telephone business and resulting inflexibility of response to client needs and desires

- Limited experience in developing/introducing new products

- Limited experience in competitive confrontations

- High wage scales of unionized sales force

- Unsettled regulatory climate (MFJ) (subsidy issues)

Short-Term Strategies

In the short term, BBPI was faced with head-to-head competition in its most lucrative geographical markets. Threatened by capable competitors, BBPI found itself ill-prepared strategically to deal with the entry tactics taken by Mast and Donnelley, including:

- Substantial price cuts

- Customer confusion

- Innovative, quality product and the commitment to stay in the market

- Aggressive sales and distribution efforts

- Effective twin approaches of segmenting geographically (rescoping) while publishing competing metropolitan directories

Previous experiences had permitted BBPI to continue its policy of tolerating the small, suburban competitor which had made no inroads into its own 90% market share. Indeed, by ignoring the competitors who had attempted entry, BBPI had been successful in keeping its resources and focus on providing a quality product with the widest possible circulation. As BBPI had anticipated, its competitors always withered and died after several years because of poor quality and low circulation. In fact, its most loyal advertisers were often those who had tried a competitor and been "burned." It is hardly surprising, then, that Mast and Donnelley were perceived as little more than larger versions of their predecessors. BBPI felt confident that it would be able to show the superiority of its yellow pages product and continue to command the price premiums of the past. What BBPI had underestimated was the competitors' ability to offer a product which equalled its own,

at substantially lower prices, and their commitment, with more than adequate financing, to stay in the market and carve out a position. The new competitors had correctly identified two of BBPI's key weaknesses and manipulated them into effective entry strategies. In addition, the competitors calculated correctly that the regulatory climate would provide "protection" for them rather than BBPI, who would be more conscious of antitrust allegations after the recent divestiture from AT&T.

Faced with the immediate threat of its surprisingly effective competitors, BBPI should adopt a defensive strategy which brings to bear all of the muscle available in its position as 90% market shareholder. Defensive strategy "aims to lower the probability of attack, divert attacks to less threatening avenues, or lessen their intensity... [making] a firm's competitive advantage more sustainable... Most defensive tactics are costly and reduce short-term profitability in order to raise the longer-term sustainability of a firm's position" (Porter, 1985, p. 482, 487). Primary categories of defensive tactics include raising structural barriers, increasing expectations of retaliation, and lowering the inducement for attack. Defensive strategies may represent deterrence or reponse. The former will be discussed in conjunction with long-term strategies, while the latter is the basis for the alternative strategies developed in this section. BBPI must be aware of how both the newly entered competitors and those "waiting" to enter will perceive its defensive actions, since those observing may be discouraged from entering by what they see.

Response tactics in which BBPI might engage are enumerated below (asterisks beside the various strategies indicate congruence with traditional product life cycle stage tactics):

*1. Immediate retraining of all sales representatives in the largest competitive markets on selling techniques and postures compatible with the new environment.

Such training will reinforce sagging perceptions of their abilities to deal with customers in such markets, possibly generated by "rumors" associated with the Bayside experience, while preparing them for actual conditions in which they will be working. Ultimately all sales representatives must be trained to understand the differences required in their behavior to be successful in a market with multiple, viable competitors. In a service business, such as advertising, the contact with the customer - the advertiser - comes primarily through the sales force. Tactics to enhance the effectiveness of this key strategic marketing tool are essential for the long-term health of the organization. BBPI should move away from different salesmen each year for each account toward an approach which would build up a trust and rapport between larger advertisers and their yellow pages sales representative. BBPI should strive for a position in which advertisers, when approached by competitive yellow pages salesmen offering lower prices, can say "no" because of the "value added" presented by BBPI products and people. Trust and mutual respect for the BBPI sales representative is the first step in building that type of customer loyalty.

*2. Strong reemphasis on customer satisfaction during and after the sale.

In its competitive markets, BBPI must insure that its contacts with advertisers outside the campaign environment are satisfactory and complement the sales effort. When advertisers had no other yellow pages to choose, service was less important. Now, however, poor service on billing inquiries and adjustment requests can push the customer into the waiting arms of a competitor. Special emphasis should be placed on "more than good" service with the BOC service representatives who handle these customers; and customer satisfaction surveys performed by BOC should include questions on how advertisers feel they have been treated. Negative comments should generate a return visit by the yellow pages salesman who contacted the customer during the last campaign to assure satisfactory resolution of the client's problem.

3. Immediate surveys of the targeted competitive markets to secure current data on the actual value of BBPI's yellow pages to the advertisers in that community.

Gathering statistical data and analyzing those groups under specific headings, e.g., lawyers, plumbers, etc., which are generators of large percentages of revenue, will permit preparation of reinforcing materials, such as testimonials by members of that group on yellow pages advertising effectiveness in securing new or repeat business, and will arm sales representatives with special tools to deal with members of those groups.

*4. Analysis of potential "rescoping" in all targeted markets to minimize the impact of competitor entry.

Knowing that past competitors have gained a foothold in the market by finding a geographical niche not served satisfactorily by its suburban directories, BBPI should waste no time in determining where it is most vulnerable. While it would incur increased expense in studies of this type, BBPI will find those expenditures less than the ultimate potential revenue losses to successful market entrants. In addition to geographical segmentation, BBPI should look closely at whether its distribution scheme for suburban directories is meeting the needs of consumers. Identifying communities of interest not associated solely with traditional telephone exchanges and simply making additional distribution of those directories may fulfill a perceived consumer or advertiser need without the increased expense of rescoping.

*5. Preparation of bundles of "bargain" packages, designed to reduce prices without actually requiring an overall price cut, for use with advertisers who appear particularly price-sensitive.

This tactic is aimed at reducing the impact on revenues of the substantial price cuts offered by competitors to secure initial advertising. Successful promotional packages might include:

Large ad at the regular price, with a small ad under another heading "free."

Bold type in the white pages "free" with the purchase of "red" or larger ad.

Two years for the price of one, with a medium size ad.

Most importantly, this type of approach does not force a complete repricing of advertising downward, which might easily send a negative signal to the customers, who, with an intangible service like advertising, probably have been convinced that higher price equates to higher quality. For BBPI to make a wholesale price reduction in all of its markets would cause devastating revenue and income shortfalls while playing the game by the competitors' rules. As the regional market leader, BBPI should continue to set the rules - higher price for higher quality and larger circulation - while displaying aggressively its willingness and ability to defend its market. BBPI does not want to let price wars push yellow pages advertising into the commodity trap, whereby the proliferation of yellow pages companies permits advertisers to select a company on the basis of lowest price.

BBPI should concede no sale regardless of the basis for that sale to its competitors. A variety of tools should be available and used by BBPI's sales force to save its position. If the "package" techniques do not suffice, BBPI should not hesitate to match the price of its competitors in its most profitable "headings." Initially this might take place in a particular "heading" only or with specific, large advertisers within that heading. Regardless, BBPI cannot afford to let its competitors get established, since even a small concession will encourage others interested in expanding to enter the region and secure a stake for themselves.

6. Continue to search for ways to reduce costs to maintain profit margins when price reduction techniques are necessitated.

BBPI's commitment to mechanization of its highly labor-intensive production activities, e.g., daily updating of listing information, is necessary to current and future prosperity. In addition, it must look closely at costs associated with its small, unprofitable white and yellow page markets to enable it to generate creative ways of reducing losses, e.g., combining several unprofitable markets into one book to lower printing and graphics costs. Finally, BBPI must perform well at the 1986 bargaining sessions with CWA to achieve wage and benefit levels consistent with a firm in a competitive rather than a monopolistic environment. Failure in the bargaining sessions could lower its competitive posture in its own region and preclude its taking a larger part in national markets.

*7. Increase "positioning" advertising in markets targeted by competitors to reduce customer confusion.

BBPI should continue its effort to capitalize on its exclusive right to use and be associated with the name of the local telephone company. Its surveys have indicated that consumers in the region have positive reactions to the BOC name and its link with a less complex past in the telecommunications arena. Capitalizing on that name, positioning BBPI's yellow pages as the ones which always have been and always will be a part of the community, can be very successful in combatting competition. In its media presentations, BBPI wants to encourage the consumer who uses its yellow pages and the businesses who advertise in them to ask, "Are those the yellow pages - those associated with my telephone company?"

BBPI can reenforce the connection between its yellow pages and the BOC telephone company name by moving away from its previous practice of binding white and yellow pages separately. This not only tends to disassociate the two in the mind of the consumer but also makes it much easier for a competitor to "substitute" his product for BBPI's in commercial and residential areas. By binding white and yellow pages together, BBPI is binding its product with a name the consumer trusts, while encouraging use of the "convenient" BBPI yellow pages which are "always as close as your phone book" and hampering circulation penetration by the competitor.

8. Move quickly to insure that competitor books are not supplanting BBPI's books in key commercial establishments, e.t., hotels and restaurants.

If evidence of such activity is found, BBPI must take decisive action to return its books to the locations. Protection of its distribution channels is essential to its survival.

Long-Term Strategies

BBPI's obvious need for an immediate defensive strategy to deal successfully with entering competitors should not obscure the pressing demand for a complete review of its business strategy in light of its rapidly changing environment. Short-term strategies can overcome the immediate threat to revenue streams and help BBPI hold its current position. However, holding position in an industry undergoing radical change can only lead to losing ultimately in the struggle for supremacy.

Instead, BBPI must move forward on the path it chooses as both a way of insuring its future and deterring its competitors.

Generic marketing strategies for increasing profitability include the following:

Increasing existing market penetration

Developing/introducing new products in the existing market

Developing/introducing new products in new markets (related to current markets)

Introducing existing products into new markets (related to existing markets)

Developing new markets (unrelated to current markets)

Exporting existing products

(Hax and Majluf, 1984)

The following alternative strategies for BBPI are enumerated in an order which would enhance both its defense and offensive positions:

Defend/enhance its existing regional markets

Expand its existing yellow pages business into national markets

Expand its existing yellow pages business into international markets

Introduce new products into the national or international markets

Develop new, related markets

Develop new, unrelated markets

Traditional marketing strategies congruent with product life cycle theories are indicated by an asterisk.

*1. Defend/enhance its existing regional markets.

To insure that it is not left to rely on one of its major competitors as a supplier of printing and graphics/design while trying to expand into that competitor's geographical area, BBPI should begin looking at once for a suitable joint venture/acquisition in this part of the publishing industry. Primary strengths of a firm being considered would include a principal location within or adjacent to BBPI's region, manufacturing facilities capable of printing and binding the large-sized books typical of BBPI's metropolitan markets, expandable plant and machinery capability, and knowledgeable management. Such a firm would probably have other clients and lines of business which it would be encouraged to pursue if the acquisition route were chosen, giving BBPI an expanded window on the publishing world, a related business into which it might wish to expand.

In addition to backward integration, BBPI must find a way to overcome the problems which have cropped up in its distribution system. Second only to the sales force in its importance, the distribution system and the circulation strength it provides are essential in convincing confused and, in the future, skeptical advertisers that they should spend their yellow page advertising dollar with BBPI instead of a competitor. As long as advertisers perceive that BBPI's yellow pages are the ones preferred and used overwhelmingly by the public they are trying to reach, BBPI will be successful in its business. Thus, it seems reasonable for BBPI to consider developing an in-house distribution system rather than relying on contract services. Time

constraints and the rapidly changing nature of the industry permit little time for hiring large numbers of people and buying equipment and storage facilities. Therefore, acquisition of an existing firm experienced in the distribution of directories, located close to or within its existing region, but having business ties with other parts of the nation, seems to be the logical direction for BBPI. Such a tactic also provides the firm with additional revenue opportunities outside its traditional businesses.

Having resolved its supplier problems through both backward and forward integration, BBPI must look at its sales force before considering the expansion into other geographical markets in its traditional yellow pages print business. With its current work force of 3,000 in-house sales representatives and supplementary contract sales personnel, BBPI is able to completely cover its regional markets. However, with its previously unsuccessful experience of supervising a remote sales force, BBPI should look to one of the sales contractors already involved in other national market segments to staff its entry into new territories. Trying to add in-house personnel in remote locations would introduce substantial overhead into any new venture and could be the difference between a profitable or unprofitable effort. However, planning an entry strategy using a contract firm which could easily become a competitor in a fast-changing environment might create more problems than it solves. Serious consideration should be given to acquiring a firm specializing in contract sales which already has national presence. In turn, if later labor negotiations were unsuccessful in adequately controlling

wages, affecting BBPI's competitive posture in its home region, BBPI could begin to turn more and more of its in-house sales work over to its contract sales firm.

With a publishing/graphics design arm, a national sales force, its own distribution company, and effective, competitive, defensive strategies, BBPI has moved to solidify its regional holdings and would be prepared to consider which additional markets it might successfully enter to increase its revenues.

*2. Expand its basic product into national markets.

Strategies for piercing the national markets outside its own region would include:

- Acquisitions of small, independent directory companies adjacent to identified markets of a particular size, e.g., \$35 million in sales, where one could gain experience in the area before beginning the process of rescoping to gain market share from the regional shareholder.
- Acquisition of a large independent with extensive national coverage of small directories in many states.
- Head-to-head competition with one of the established regions perceived as less competent in directory activities in that firm's most profitable markets. (Dissatisfied advertisers might well switch, given proper initial pricing incentives.)

- Head-to-head competition with one of the major independent companies in its largest markets.
- Entry into the markets of competitors as both a defensive and offensive move.

Selection of one or more of the above would propel BBPI into a position from which, if successful, it could begin to amass larger and larger market shares from existing companies. Pitfalls of this type of expansion include lack of knowledge of the geographic area into which expansion is planned, remote supervision of sales personnel, and retaliatory actions by the current market leader. Careful market research should be completed before a specific market is tested for this expansion.

*3. Expand existing yellow pages business into international markets.

Because of the inherent difficulties - political, cultural, monetary - associated with doing business overseas, BBPI should use the joint venture or acquisition mode to expand into international markets. A joint venture with an experienced partner can reduce risk and enhance the probabilities of success in such an effort. Timing is right for such a move as the pressure for deregulation of foreign telecommunications systems gains momentum. Companies like AT&T, with its contract to produce yellow pages for Thailand (Business Week, March 10, 1986, p. 44), and Southwestern Bell, with a joint venture to sell advertising for Australia's telephone company (Business Week, December 2, 1985, p. 100) have already begun to test the international waters.

*4. Introduce new products into its existing markets.

In addition to expanding its yellow pages business geographically, BBPI would be well-positioned with its new acquisitions to enter the specialty directory market. Entry strategies for this market might include:

- Business-to-business directories for its large metropolitan or regional customers only.
- Purchasing directories aimed at local or regional government procurement specialists.

By entering this market at the regional level, BBPI would be able to closely watch the results of its entry strategies and make rapid adjustments to market conditions. In addition, it could gain experience in this new business before venturing into more competitive arenas.

*5. Introduce new products into the national or international markets.

By entering this market, which many of the regionals have already begun to do, BBPI would find itself competing with some of the giants in the publishing industry, including Dun & Bradstreet. The expertise of selling advertising for specialized directories would not be foreign to BBPI, and the revenue available seems to be from advertising aimed much more at business users rather than consumers. Thus, BBPI would need to be very focused in its strategy, attempting to enter in a niche which has been ignored or omitted by the larger players or in the geographical markets outside its own region in which it has been able to establish

market share. While there is revenue to be had in this market, it appears to be much more difficult to make significant share gains over a short period of time. In addition, this market would likely be a natural target of eventual initial teletext/videotext thrusts, since more businesses have personal computers and people accustomed to dealing with electronic data manipulation than do consumers. BBPI should enter slowly and deliberately in order to find an available niche.

6. Develop new, related markets.

By acquiring publishing, graphics, distribution, and sales companies, BBPI will have automatically put itself into the various enterprises in which those it acquires are already engaged. Over a period of years BBPI could continue to develop its interests into a general publishing company. Several of the former Bell companies are already forming joint ventures in this arena, such as NYNEX Corporation and Ameritech Publishing's announced intent to publish a new magazine called Changing Homes by June, 1986. Publishing know-how will come from Rick Del Mastro and James Kobak, while the two regional companies provide the financing. To be distributed through utilities to an estimated 7.5 million readers, the magazine will provide information on "community services, events, transportation, maps, and other data as well as national pages on furnishings, decorating, home security, entertaining, and other issues" (Communications Week, January 6, 1986, p. 8). Such a publishing effort would be within BBPI's capability and would provide diversification that does not stray too far afield of its basic knowledge. A similar related product development might be a foray into the developing videotext

market. With its knowledge of yellow pages and the potential for electronic yellow pages in the next decade, BBPI could begin to position itself for a strong entry into that market.

Unless, however, BBPI wishes to eventually lose out to the electronic marketing barrage predicted for the late 1990s, it must begin extensive lobbying at the federal level to break the blockade created by the myriad rules of divestiture oversight. Judge Harold Greene is scheduled to review the divestiture rules in 1987, and many of the regional companies are already pushing for removal of the barrier which prohibits them from offering "information services." One region, NYNEX Corp, has formed a partnership with RCA and Citicorp aimed at research and development of videotext "that lets customers bank and shop via their home computers and televisions" (Wall Street Journal, February 13, 1986, p. 16). The future is in the electronic medium, and failure to enter could relegate BBPI to a second-rate position in the future. With its expertise in yellow pages advertising and sales, BBPI's move into an additional medium - from print to electronics - would be a natural step in extending the life of yellow pages. As more and more homes add computers and interface devices, BBPI could maintain its print yellow pages business while also offering an electronic version. Thus, BBPI has a vital interest in actively pursuing what FCC Chairman Mark Fowler has described as an open architecture network which would permit "all telecommunications services... that includes access, enhanced offerings and local facilities to be deregulated as to both entry and rates..." In his 1986 speech to the Communications Network conference, Fowler

stated, "The time has come to move from thinking of the past and advance to the future - away from traditional public utility regulation and towards a competitive industry model... Let the discipline of competition replace the squeaks and roars of regulators" (MIB, February 21, 1986, p. 1). BBPI must embrace a philosophy by which it actively seeks to influence federal and state legislators and regulators, urging them to move out of the way of progress and permit the company and its industry to step into the Twenty-first Century. Only by such means can its potential be realized.

7. Develop new, unrelated markets.

This type of strategy would put BBPI into the conglomerate or holding company mode. Acquiring or developing businesses unrelated to its core strength can cause severe problems in management, culture clashes, and cash flow. Such moves should not be made unless some drastic change in the attractiveness of the yellow pages industry were to occur.

Conclusions

The author has attempted to lead the reader through a case which looks at marketing and business strategy in a service company from the perspective of the product life cycle theory. Choosing a company in an industry which is in the throes of structural change has made it possible to identify numerous possible strategic directions from both short-term and long-term perspectives.

This exercise in moving the life cycle concept from goods marketing into

a service setting leads one to conclude that it has equal validity as a framework within which to devise strategic directions for the single service firm. By using the life cycle stages - introduction, growth, maturity, and decline - identified by product managers in the goods areas, one can indeed chart and plan strategies which complement the particular phase of the service, just as one can with a branded good. A large number of strategies identified for BBPI were congruent with traditional strategies recommended by the life cycle framework. Those not identified as congruent with the traditional life cycle concept might be considered outside the realm of "marketing." However, one is inclined to agree with Baker (1984, p. 199), who declares, "In the case of the single product organization, it is felt that the concepts of marketing strategy and strategic marketing planning are synonymous with corporate strategy and corporate planning."

Regardless of whether one agrees with Baker, one must conclude that at least one traditional goods marketing tool is applicable and transferrable to services marketing. Such usage indicates support for those who believe that marketing in the services industry is not unlike marketing in the goods industry. However, it is clear that in this case, at least, not all of the tactics normally associated with successful use of the product life cycle strategies in goods marketing are applicable to the advertising service industry. Rather, service marketing managers must pick and choose among the traditional product life cycle strategies to assure a "fit" with their particular circumstances.

This very limited effort of applying goods marketing tools to a service industry indicates the possibility of opening up a wide array of uses for other goods-related practices. Researchers should continue to explore transference and adaptation, if required, of concepts and tools to encourage the development of marketing as a central part of running a service business. Such research will not only enhance the performance of service firms but will also enrich the field of study we call "marketing."

Service industries, as a rapidly growing, ever more important segment of the U. S. economy, will require more and more tools to assist them in understanding their changing environment and developing strategies which permit survival and enhance growth opportunities. Marketing concepts like product life cycle management which can be adapted to new uses can play a role in guiding the strategic decisions of service executives, who, being no different than manufacturing executives, wish to be a success in their endeavors.

According to Porter (1985), "in a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers" (p. 14). He indicates that this differentiation can arise from any of the elements in a firm's "value chain." One of the key pieces of a service's value chain is its marketing ability. With the successful addition of product life cycle management to its strategic marketing tools, a service firm might find the very sustainable competitive advantage it seeks to deliver maximum customer and shareholder value over a long period of time.

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APPENDIX A

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA,

Plaintiff,

Civil Action
No. 82-0192

v
WESTERN ELECTRIC COMPANY, INCORPORATED,
AND AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendants.

MODIFICATION OF FINAL JUDGMENT

Plaintiff, United States of America, having filed its complaint herein on January 14, 1949; the defendants having appeared and filed their answer to such complaint denying the substantive allegations thereof; the parties, by their attorneys, having severally consented to a Final Judgment which was entered by the Court on January 24, 1956, and the parties having subsequently agreed that modification of such Final Judgment is required by the technological, economic and regulatory changes which have occurred since the entry of such Final Judgment;

Upon joint motion of the parties and after hearing by the Court, it is hereby ORDERED, ADJUDGED, AND DECREED that the Final Judgment entered on January 24, 1956, is hereby vacated in its entirety and replaced by the following items and provisions:

I
AT&T
Reorganization

A. Not later than six months after the effective date of this Modification of Final Judgment, defendant AT&T shall submit to the Department of Justice for its approval, and thereafter implement, a plan of reorganization. Such plan shall provide for the completion, within 18 months after the effective date of this Modification of Final Judgment, of the following steps:

1. The transfer from AT&T and its affiliates to the BOCs, or to a new entity subsequently to be separated from AT&T and to be owned by the BOCs, of sufficient facilities, personnel, systems, and rights to technical information to permit the BOCs to perform, independently of AT&T, exchange telecommunications and exchange access functions, including the procurement for, and engineering, marketing and management of, those functions, and sufficient to enable the BOCs to meet the equal exchange access requirements of Appendix B;

2. The separation within the BOCs of all facilities, personnel and books of account between those relating to the exchange telecommunications or exchange access functions and those relating to other functions (including the provision of interexchange switching and transmission and the provision of customer premises equipment to the public); provided that there shall be no joint ownership of facilities, but appropriate provision may be made for sharing, through leasing or otherwise, of multifunction facilities so long as the separated portion of each BOC is ensured control over the exchange telecommunications and exchange access functions;

3. The termination of the License Contracts between AT&T and the BOCs and other subsidiaries and the Standard Supply Contract between Western Electric and the BOCs and other subsidiaries; and

4. The transfer of ownership of the separated portions of the BOCs providing local exchange and exchange access services from AT&T by means of a spin-off of stock of the separated BOCs to the shareholders of AT&T, or by other disposition; provided that nothing in this Modification of Final Judgment shall require or prohibit the consolidation of the ownership of the BOCs into any particular number of entities.

B. Notwithstanding separation of ownership, the BOCs may support and share the costs of a centralized organization for the provision of engineering, administrative and other services which can most efficiently be provided on a centralized basis. The BOCs shall provide, through a centralized organization, a single point of

contact for coordination of BOCs to meet the requirements of national security and emergency preparedness.

C. Until September 1, 1987, AT&T, Western Electric, and the Bell Telephone Laboratories, shall, upon order of any BOC, provide on a priority basis all research, development, manufacturing, and other support services to enable the BOCs to fulfill the requirements of this Modification of Final Judgment. AT&T and its affiliates shall take no action that interferes with the BOCs' requirements of nondiscrimination established by section II.

D. After the reorganization specified in paragraph I(A)(4), AT&T shall not acquire the stock or assets of any BOC.

II BOC Requirements

A. Subject to Appendix B, each BOC shall provide to all interexchange carriers and information service providers exchange access, information access, and exchange services for such access on an unbundled, tariffed basis, that is equal in type, quality, and price to that provided to AT&T and its affiliates.

B. No BOC shall discriminate between AT&T and its affiliates and their products and services and other persons and their products and services in the:

1. procurement of products and services;
2. establishment and dissemination of technical information and procurement and interconnection standards;
3. interconnection and use of the BOC's telecommunications service and facilities or in the charges for each element of service; and
4. provision of new services and the planning for and implementation of the construction or modification of facilities, used to provide exchange access and information access.

C. Within six months after the reorganization specified in paragraph I(A), each BOC shall submit to the Department of Justice procedures for ensuring compliance with the requirements of paragraph B.

D. After completion of the reorganization specified in section I, no BOC shall, directly or through any affiliated enterprise:

1. provide interexchange telecommunications services or information services;
2. manufacture or provide telecommunications products or customer premises equipment (except for provision of customer premises equipment for emergency services); or
3. provide any other product or service, except exchange telecommunications and exchange access service, that is not a natural monopoly service actually regulated by tariff.

III Applicability and Effect

The provisions of this Modification of Final Judgment, applicable to each defendant and each BOC, shall be binding upon said defendants and BOCs, their affiliates, successors and assigns, officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with each defendant and BOC who receive actual notice of this Modification of Final Judgment by personal service or otherwise. Each defendant and each person bound by the prior sentence shall cooperate in ensuring that the provisions of this Modification of Final Judgment are carried out. Neither this Modification of Final Judgment nor any of its terms or provisions shall constitute any evidence against, an admission by, or an estoppel against any party or BOC. The effective date of this Modification of Final Judgment shall be the date upon which it is entered.

IV Definitions

For the purposes of this Modification of Final Judgment:

A. "Affiliate" means any organization or entity, including defendant Western Electric Company, Incorporated, and Bell Telephone Laboratories, Incorporated, that is under direct or indirect common ownership with or control by AT&T or is owned or controlled by another affiliate. For the purposes of this paragraph, the terms "ownership" and "owned" mean a direct or indirect equity interest (or the equivalent thereof) of more than fifty (50) percent of an entity. "Subsidiary" means any organization or entity in which AT&T has stock ownership, whether or not controlled by AT&T.

B. "AT&T" shall mean defendant American Telephone and Telegraph Company and its affiliates.

C. "Bell Operating Companies" and "BOCs" mean the corporations listed in Appendix A attached to this Modification of Final Judgment and any entity directly or indirectly owned or controlled by a BOC or affiliated through substantial common ownership.

D. "Carrier" means any person deemed a carrier under the Communications Act of 1934 or amendments thereto, or, with respect to intrastate telecommunications, under the laws of any State.

E. "Customer premises equipment" means equipment employed on the premises of a person (other than a carrier) to originate, route, or terminate telecommunications, but does not include equipment used to multiplex, maintain, or terminate access lines.

F. "Exchange access" means the provision of exchange services for the purpose of originating or terminating interexchange telecommunications. Exchange services include any activity or function performed by a BOC in connection with the origination or termination of interexchange telecommunications, including but not limited to, the provision of network control signalling, answer supervision, automatic calling number identification, carrier access codes, directory services, testing and maintenance of facilities and the provision of information necessary to bill customers. Such services shall be provided by facilities in an exchange area for the transmission, switching, or routing, within the exchange area, of interexchange traffic originating or terminating within the exchange area, and shall include switching traffic within the exchange area above the end office and delivery and receipt of such traffic at a point or points within an exchange area designated by an interexchange carrier for the connection of its facilities with those of the BOC. Such connections, at the option of the interexchange carrier, shall deliver traffic with signal quality and characteristics equal to that provided similar traffic of AT&T, including equal probability of blocking, based on reasonable traffic estimates supplied by each interexchange carrier. Exchange services for exchange access shall not include the performance by any BOC of interexchange traffic routing for any interexchange carrier. In the reorganization specified in section I, trunks used to transmit AT&T's traffic between end offices and class 4 switches shall be exchange access facilities to be owned by the BOCs.

G. "Exchange area" or "exchange" means a geographic area established by a BOC in accordance with the following criteria:

1. any such area shall encompass one or more contiguous local exchange areas serving common social, economic, and other purposes, even where such configuration transcends municipal or other local governmental boundaries;
2. every point served by a BOC within a State shall be included within an exchange area;
3. no such area which includes part or all of one standard metropolitan statistical area (or a consolidated statistical area, in the case of densely populated States) shall include a substantial part of any other standard metropolitan statistical area (or a consolidated statistical area, in the case of densely populated States), unless the Court shall otherwise allow; and
4. except with approval of the Court, no exchange area located in one State shall include any point located within another State.

H. "Information" means knowledge or intelligence represented by any form of writing, signs, signals, pictures, sounds, or other symbols.

I. "Information access" means the provision of specialized exchange telecommunications services by a BOC in an exchange area in connection with the origination, termination, transmission, switching, forwarding or routing of telecommunications traffic to or from the facilities of a provider of information services. Such specialized exchange telecommunications services include, where necessary, the provision of network control signalling, answer supervision, automatic calling number identification, carrier access codes, testing and maintenance of facilities, and the provision of information necessary to bill customers.

J. "Information service" means the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information which may be conveyed via telecommunications, except that such service does not include any use of any such capability for the management, control, or operation of a telecommunications system or the management of a telecommunications service.

K. "Interexchange telecommunications" means telecommunications between a point or points located in one exchange telecommunications area and a point or points located in one or more other exchange areas or a point outside an exchange area.

L. "Technical information" means intellectual property of all types, including, without limitation, patents, copyrights, and trade secrets, relating to planning documents, designs, specifications, standards, and practices and procedures, including employee training.

N. "Telecommunications equipment" means equipment, other than customer premises equipment, used by a carrier to provide telecommunications services.

O. "Telecommunications" means the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received, by means of electromagnetic transmission, with or without benefit of any closed transmission medium, including all instrumentalities, facilities, apparatus, and services (including the collection, storage, forwarding, switching, and delivery of such information) essential to such transmission.

P. "Telecommunications service" means the offering for hire of telecommunications facilities, or of telecommunications by means of such facilities.

Q. "Transmission facilities" means equipment (including without limitation wire, cable, microwave, satellite, and fibre-optics) that transmit information by electromagnetic means or which directly support such transmission, but does not include customer premises equipment.

V Compliance Provisions

The defendants, each BOC, and affiliated entities are ordered and directed to advise their officers and other management personnel with significant responsibility for matters addressed in this Modification of Final Judgment of their obligations hereunder. Each BOC shall undertake the following with respect to each such officer or management employee:

1. The distribution to them of a written directive setting forth their employer's policy regarding compliance with the Sherman Act and with this Modification of Final Judgment, with such directive to include:

(a) an admonition that non-compliance with such policy and this Modification of Final Judgment will result in appropriate disciplinary action determined by their employer and which may include dismissal; and

(b) advice that the BOCs' legal advisors are available at all reasonable times to confer with such persons regarding any compliance questions or problems;

2. The imposition of a requirement that each of them sign and submit to their employer a certificate in substantially the following form:

The undersigned hereby (1) acknowledges receipt of a copy of the 1982 *United States v. Western Electric*, Modification of Final Judgment and a written directive setting forth Company policy regarding compliance with the antitrust laws and with such Modification of Final Judgment, (2) represents that the undersigned has read such Modification of Final Judgment and directive and understands those provisions for which the undersigned has responsibility, (3) acknowledges that the undersigned has been advised and understands that non-compliance with such policy and Modification of Final Judgment will result in appropriate disciplinary measures determined by the Company and which may include dismissal, and (4) acknowledges that the undersigned has been advised and understands that non-compliance with the Modification of Final Judgment may also result in conviction for contempt of court and imprisonment and/or fine.

VI Visitorial Provisions

A. For the purpose of determining or securing compliance with this Modification of Final Judgment, and subject to any legally recognized privilege, from time to time:

1. Upon written request of the Attorney General or of the Assistant Attorney General in charge of the Antitrust Division, and on reasonable notice to a defendant or after the reorganization specified in section I, a BOC, made to its principal office, duly authorized representatives of the Department of Justice shall be permitted access during office hours of such defendants or BOCs to depose or interview officers, employees, or agents, and inspect and copy all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession or under the control of such defendant, BOC, or subsidiary companies, who may have counsel present, relating to any matters contained in this Modification of Final Judgment; and

2. Upon the written request of the Attorney General or of the Assistant Attorney General in charge of the Antitrust Division made to a defendant's principal office or, after the reorganization specified in section I, a BOC, such defendant, or BOC, shall submit such written reports, under oath if requested, with respect to any of the matters contained in this Modification of Final Judgment as may be requested.

B. No information or documents obtained by the means provided in this section shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Executive Branch of the United States or the Federal Communications Commission, except in the course of legal proceedings to which the United States is a party, or for the purpose of securing compliance with this Final Judgment, or as otherwise required by law.

C. If at the time information or documents are furnished by a defendant to a plaintiff, such defendant or BOC represents and identifies in writing the material in any such information or documents to which a claim of protection may be asserted under Rule 26(c) (7) of the Federal Rules of Civil Procedure, and said defendant or BOC marks each pertinent page of such material. "Subject to claim of protection under Rule 26(c) (7) of the Federal Rules of Civil Procedure," then 10 days' notice shall be given by plaintiff to such defendant or BOC prior to divulging such material in any legal proceeding (other than a grand jury proceeding) to which that defendant or BOC is not a party.

VII Retention of Jurisdiction

Jurisdiction is retained by this Court for the purpose of enabling any of the parties to this Modification of Final Judgment, or, after the reorganization specified in section I, a BOC to apply to this Court at any time for such further orders or directions as may be necessary or appropriate for the construction or carrying out of this

Modification of Final Judgment, for the modification of any of the provisions hereof, for the enforcement of compliance herewith, and for the punishment of any violation hereof.

VIII Modifications

A. Notwithstanding the provisions of section II(D)(2), the separated BOCs shall be permitted to provide, but not manufacture, customer premises equipment.

B. Notwithstanding the provisions of section II(D)(3), the separated BOCs shall be permitted to produce, publish, and distribute printed directories which contain advertisements and which list general product and business categories, the service or product providers under these categories, and their names, telephone numbers, and addresses.

Notwithstanding the provisions of sections I(A)(1), I(A)(2), I(A)(4), all facilities, personnel, systems, and rights to technical information owned by AT&T, its affiliates, or the BOCs which are necessary for the production, publication, and distribution of printed advertising directories shall be transferred to the separated BOCs.

C. The restrictions imposed upon the separated BOCs by virtue of section II(D) shall be removed upon a showing by the petitioning BOC that there is no substantial possibility that it could use its monopoly power to impede competition in the market it seeks to enter.

D. AT&T shall not engage in electronic publishing over its own transmission facilities. "Electronic publishing" means the provision of any information which AT&T or its affiliates has, or has caused to be, originated, authored, compiled, collected, or edited, or in which it has a direct or indirect financial or proprietary interest, and which is disseminated to an unaffiliated person through some electronic means.

Nothing in this provision precludes AT&T from offering electronic directory services that list general product and business categories, the service or product providers under these categories, and their names, telephone numbers, and addresses; or from providing the time, weather, and such other audio services as are being offered as of the date of the entry of the decree to the geographic areas of the country receiving those services as of that date.

Upon application of AT&T, this restriction shall be removed after seven years from the date of entry of the decree, unless the Court finds that competitive conditions clearly require its extension.

E. If a separated BOC provides billing services to AT&T pursuant to Appendix B(C)(2), it shall include upon the portion of the bill devoted to interexchange services the following legend:

This portion of your bill is provided as a service to AT&T. There is no connection between this company and AT&T. You may choose another company for your long distance telephone calls while still receiving your local telephone service from this company.

F. Notwithstanding the provisions of Appendix B(C)(3), whenever, as permitted by the decree, a separated BOC fails to offer exchange access to an interexchange carrier that is equal in type and quality to that provided for the interexchange traffic of AT&T, the tariffs filed for such less-than-equal access shall reflect the lesser cost, if any, of such access as compared to the exchange access provided AT&T.

G. Facilities and other assets which serve both AT&T and one or more BOCs shall be transferred to the separated BOCs if the use made by such BOC or BOCs predominates over that of AT&T. Upon application by a party or a BOC, the Court may grant an exception to this requirement.

H. At the time of the transfer of ownership provided for in section I(A)(4), the separated BOCs shall have debt ratios of approximately forty-five percent (except for Pacific Telephone and Telegraph Company which shall have a debt ratio of ap-

proximately fifty percent), and the quality of the debt shall be representative of the average terms and conditions of the consolidated debt held by AT&T, its affiliates and the BOCs at that time. Upon application by a party or a BOC, the Court may grant an exception to this requirement.

I. The Court may act *sua sponte* to issue orders or directions for the construction or carrying out of this decree, for the enforcement of compliance therewith, and for the punishment of any violation thereof.

J. Notwithstanding the provisions of section I(A), the plan of reorganization shall not be implemented until approved by the Court as being consistent with the provisions and principles of the decree.

Entered this 24th day of August, 1982.

/s/ Harold H. Greene

Harold H. Greene
United States District Judge

APPENDIX A

Bell Telephone Company of Nevada
Illinois Bell Telephone Company
Indiana Bell Telephone Company, Incorporated
Michigan Bell Telephone Company
New England Telephone and Telegraph Company
New Jersey Bell Telephone Company
New York Telephone Company
Northwestern Bell Telephone Company
Pacific Northwest Bell Telephone Company
South Central Bell Telephone Company
Southern Bell Telephone and Telegraph Company
Southwestern Bell Telephone Company
The Bell Telephone Company of Pennsylvania
The Chesapeake and Potomac Telephone Company
The Chesapeake and Potomac Telephone Company of Maryland
The Chesapeake and Potomac Telephone Company of Virginia
The Chesapeake and Potomac Telephone Company of West Virginia
The Diamond State Telephone Company
The Mountain States Telephone and Telegraph Company
The Ohio Bell Telephone Company
The Pacific Telephone and Telegraph Company
Wisconsin Telephone Company

APPENDIX B

PHASED-IN BOC PROVISION OF EQUAL EXCHANGE ACCESS

A. 1. As part of its obligation to provide non-discriminatory access to inter-exchange carriers, no later than September 1, 1984, each BOC shall begin to offer to all interexchange carriers exchange access on an unbundled, tariffed basis, that

is equal in type and quality to that provided for the interexchange telecommunications services of AT&T and its affiliates. No later than September 1, 1985, such equal access shall be offered through end offices of each BOC serving at least one-third of that BOC's exchange access lines and, upon bona fide request, every end office shall offer such access by September 1, 1986. Nothing in this Modification of Final Judgment shall be construed to permit a BOC to refuse to provide to any interexchange carrier or information service provider, upon bona fide request, exchange or information access superior or inferior in type or quality to that provided for AT&T's interexchange services or information services at charges reflecting the reduced or increased cost of such access.

2. (i) Notwithstanding paragraph (1), in those instances in which a BOC is providing exchange access for Message Telecommunications Service on the effective date of this Modification of Final Judgment through access codes that do not permit the designation of more than one interexchange carrier, then, in accordance with the schedule set out in paragraph (1), exchange access for additional carriers shall be provided through access codes containing the minimum number of digits necessary at the time access is sought to permit nationwide, multiple carrier designation for the number of interexchange carriers reasonably expected to require such designation in the immediate future.

(ii) Each BOC shall, in accordance with the schedule set out in paragraph (1), offer as a tariffed service exchange access that permits each subscriber automatically to route, without the use of access codes, all the subscriber's interexchange communications to the interexchange carrier of the customer's designation.

(iii) At such time as the national numbering area (area code) plan is revised to require the use of additional digits, each BOC shall provide exchange access to every interexchange carrier, including AT&T, through a uniform number of digits.

3. Notwithstanding paragraphs (1) and (2), with respect to access provided through an end office employing switches technologically antecedent to electronic, stored program control switches or those offices served by switches that characteristically serve fewer than 10,000 access lines, a BOC may not be required to provide equal access through a switch if, upon complaint being made to the Court, the BOC carries the burden of showing that for particular categories of services such access is not physically feasible except at costs that clearly outweigh potential benefits to users of telecommunications services. Any such denial of access under the preceding sentence shall be for the minimum divergence in access necessary, and for the minimum time necessary, to achieve such feasibility.

B. 1. The BOCs are ordered and directed to file, to become effective on the effective date of the reorganization described in paragraph I(A) (4), tariffs for the provision of exchange access including the provision by each BOC of exchange access for AT&T's interexchange telecommunications. Such tariffs shall provide unbundled schedules of charges for exchange access and shall not discriminate against any carrier or other customer. Such tariffs shall replace the division of revenues process used to allocate revenues to a BOC for exchange access provided for the interexchange telecommunications of BOCs or AT&T.

2. Each tariff for exchange access shall be filed on an unbundled basis specifying each type of service, element by element, and no tariff shall require an interexchange carrier to pay for types of exchange access that it does not utilize. The charges for each type of exchange access shall be cost justified and any differences in charges to carriers shall be cost justified on the basis of differences in services provided.

3. Notwithstanding the requirements of paragraph 2, from the date of reorganization specified in section I until September 1, 1991, the charges for delivery or receipt of traffic of the same type between end offices and facilities of interexchange carriers within an exchange area, or within reasonable subzones of an exchange area, shall be equal, per unit of traffic delivered or received, for all interexchange carriers; provided, that the facilities of any interexchange carrier within five miles of an AT&T class 4 switch shall, with respect to end offices served

by such class 4 switch, be considered to be in the same subzone as such class 4 switch.

4. Each BOC offering exchange access as part of a joint or through service shall offer to make exchange access available to all interexchange carriers on the same terms and conditions, and at the same charges, as are provided as part of a joint or through service, and no payment or consideration of any kind shall be retained by the BOC for the provision of exchange access under such joint or through service other than through tariffs filed pursuant to this paragraph.

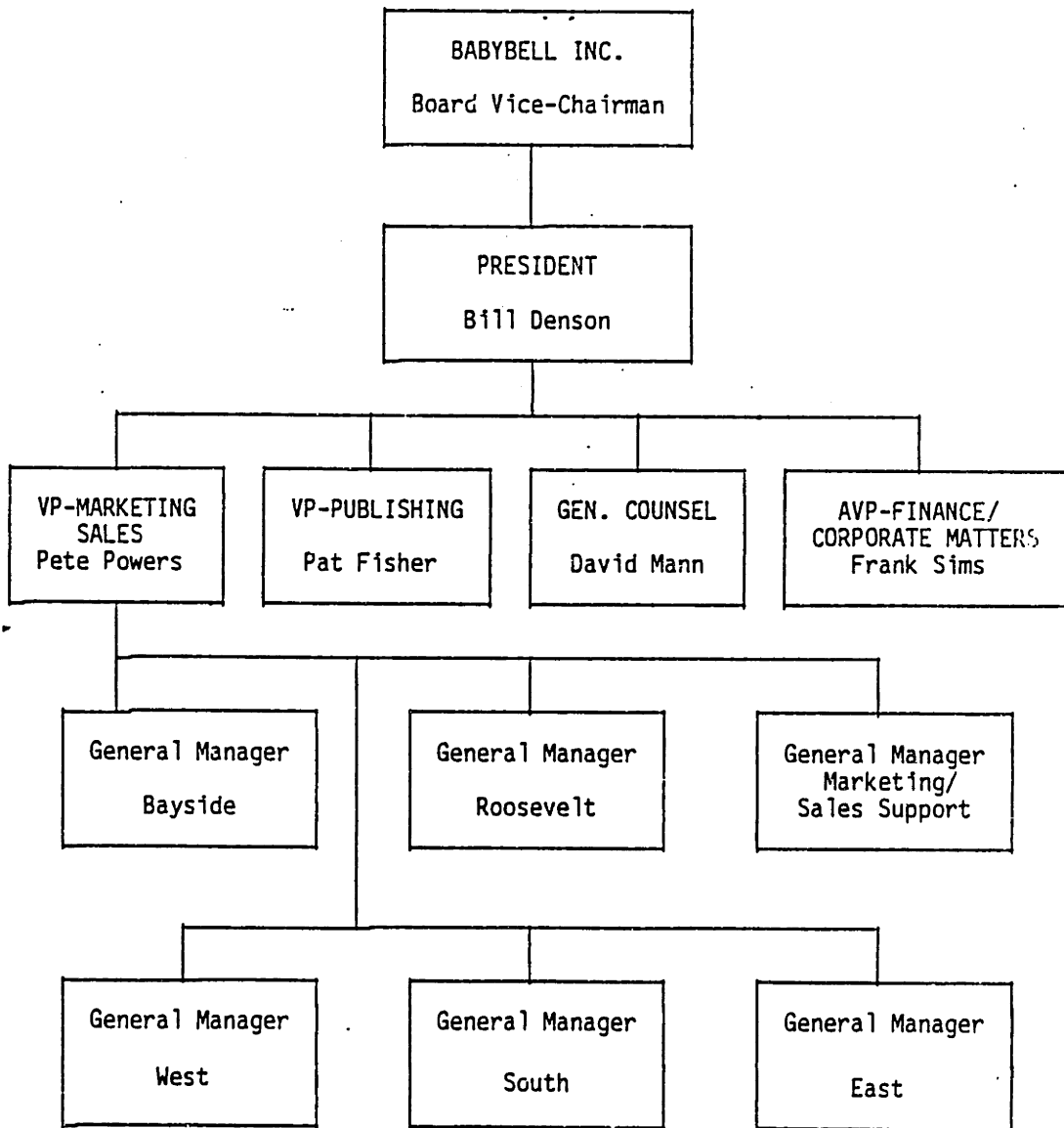
C. 1. Nothing in this Modification of Final Judgment shall be construed to require a BOC to allow joint ownership or use of its switches, or to require a BOC to allow co-location in its building of the equipment of other carriers. When a BOC uses facilities that (i) are employed to provide exchange telecommunications or exchange access or both, and (ii) are also used for the transmission or switching of interexchange telecommunications, then the costs of such latter use shall be allocated to the interexchange use and shall be excluded from the costs underlying the determination of charges for either of the former uses.

2. Nothing in this Modification of Final Judgment shall either require a BOC to bill customers for the interexchange services of any interexchange carrier or preclude a BOC from billing its customers for the interexchange services of any interexchange carrier it designates, provided that when a BOC does provide billing services to an interexchange carrier, the BOC may not discontinue local exchange service to any customer because of nonpayment of interexchange charges unless it offers to provide billing services to all interexchange carriers, and provided further that the BOC's cost of any such billing shall be included in its tariffed access charges to that interexchange carrier.

3. Whenever, as permitted by this Modification of Final Judgment, a BOC fails to offer exchange access to an interexchange carrier that is equal in type and quality to that provided for the interexchange traffic of AT&T, nothing in this Modification of Final Judgment shall prohibit the BOC from collecting reduced charges for such less-than-equal exchange access to reflect the lesser value of such exchange access to the interexchange carrier and its customers compared to the exchange access provided AT&T.

APPENDIX B

BABYBELL PUBLISHING INCORPORATED
ORGANIZATION CHART



APPENDIX C

1/12 Page Ad

This size
2-1/4 x 2-1/4
Advertisement
\$410.00

1/6 Page Ad

This size 2-1/4 x 4-3/4 Advertisement
\$775.00

Listing Charge
\$72.50 one line
\$10.00 each additional
line

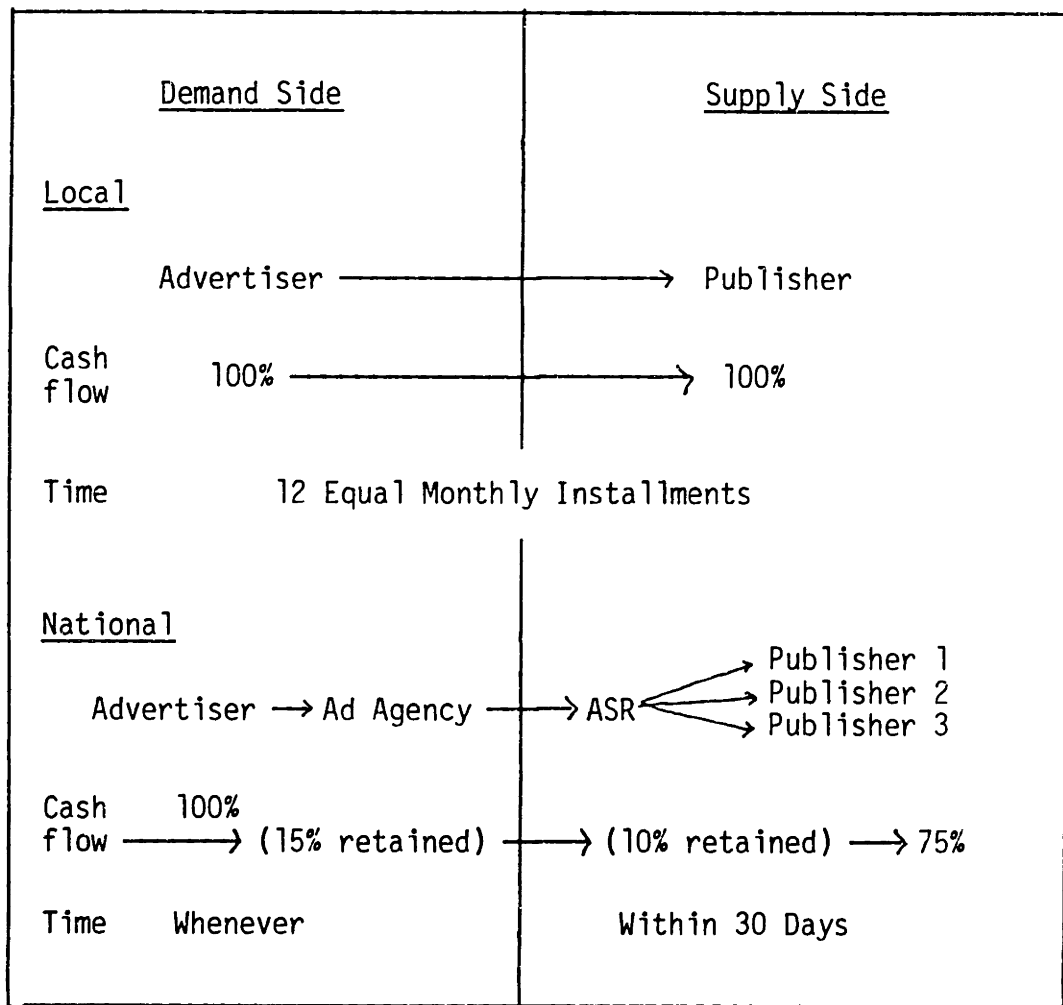
NAME ONLY
in bold type

1/3 Page Ad

This size 4-3/4 x 4-3/4 Advertisement
\$1375.00

1/2 Page Ad (NOT SHOWN)
\$2075.00
Size 4-3/4 x 7-1/4

LOCAL VERSUS NATIONAL ADVERTISING
CREDIT POLICY



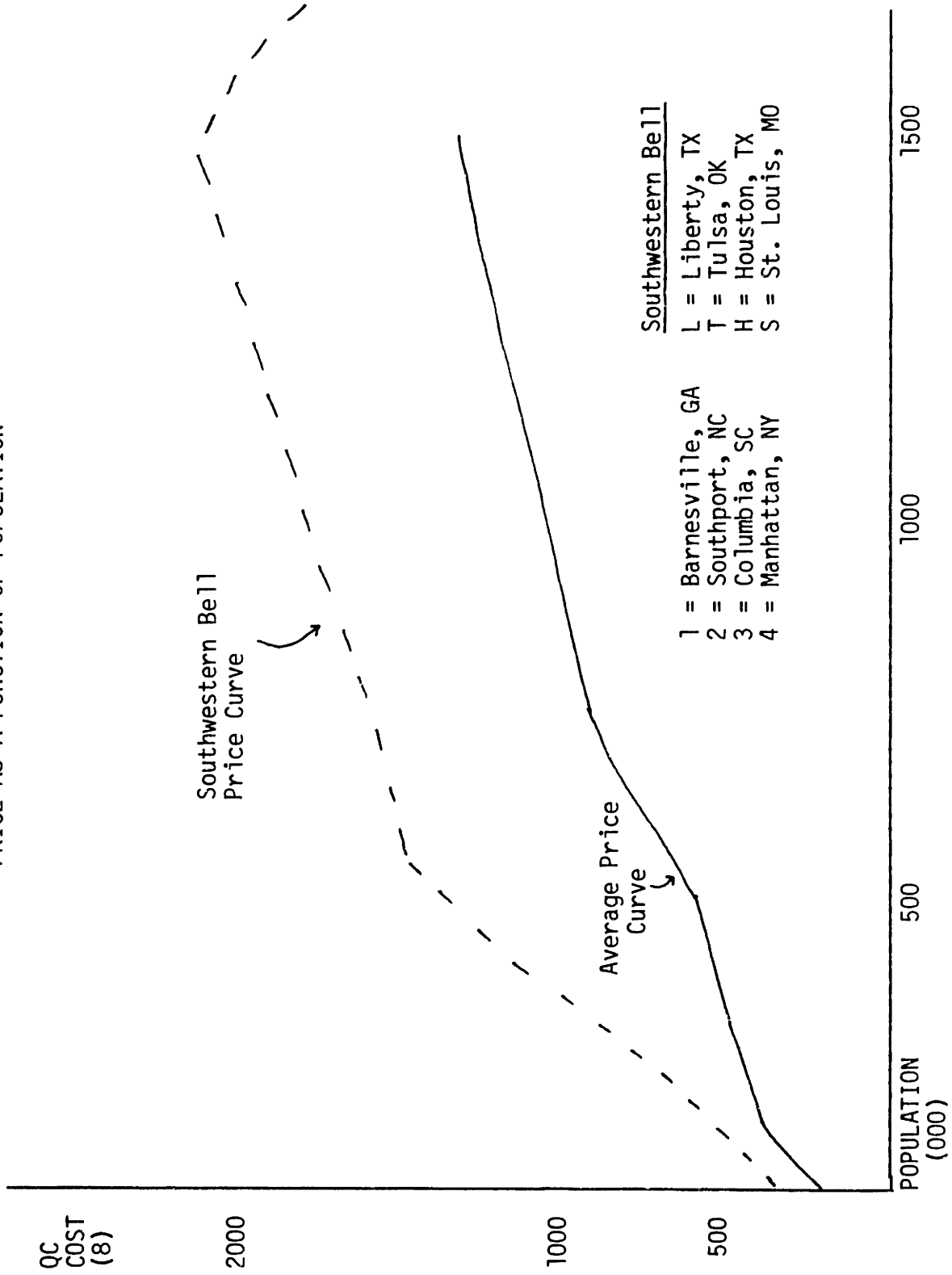
PER QCE PRICES OF COMMONLY SOLD YELLOW PAGES UNIT

Population (000)	UDAC QCEs	QC*	CTM	TM	BL	AL	TC	DHC	DCQ	4HS	3HS	2HS	1HS
		1	.8	.4	.05	.04	.1	4	2	.8	.6	.4	.2
1-9	1	\$ 149.40	1.58	1.79	4.34	2.96	2.74	.98	.99	.98	1.21	1.37	1.67
10-49	1	\$ 226.31	1.60	1.71	3.83	2.67	2.44	.97	.98	1.06	1.17	1.25	1.39
50-99	1	\$ 308.13	1.54	1.70	3.45	2.34	2.00	.94	.96	1.03	1.13	1.20	1.25
100-249	1	\$ 410.78	1.54	1.64	3.06	1.81	2.01	.94	.95	.99	1.08	1.15	1.28
250-499	1	\$ 581.48	1.54	1.58	2.71	1.49	1.96	.96	.97	.97	1.08	1.11	1.28
500-999	1	\$ 1020.78	1.54	1.54	2.30	1.29	1.88	1.00	.99	1.01	1.08	1.09	1.28
1000+	1	\$ 1313.50	1.60	1.65	2.28	1.26	1.89	.99	.00	1.10	1.11	1.12	1.20

*Note: All rates are standardized to the Quarter Column. These are the average prices for a QC unit in directories in this population band.

Source: NYP&A, Rates and Data, December 1982, p. 6.

PRICE AS A FUNCTION OF POPULATION



COST EFFECTIVENESS OF YELLOW PAGES AND TV ADVERTISING

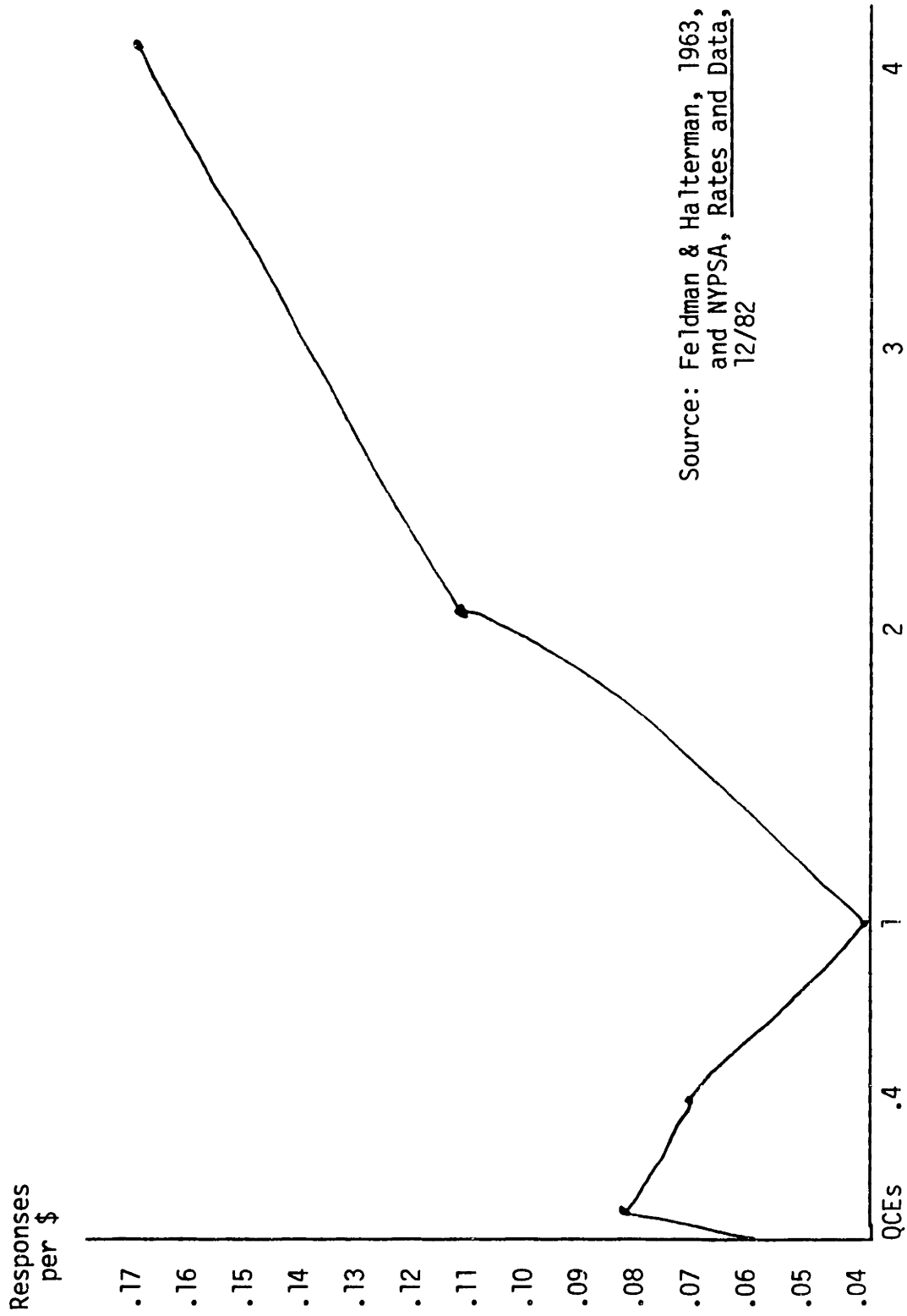
TV Advertising Yellow Pages

Low High Low High

Minutes/Day	18	31	.9	1.4
Ads/Minutes	2	2.5	4 ⁺	6 ⁺
# of Adults 16+ Days/Years	1.75 x 10 ⁸ 365		7.3 x 10 ⁹	1.7 x 10 ¹⁰
Adult Exposures/Yr	2.3 x 10 ¹²	4.9 x 10 ¹²	2.9 x 10 ¹⁰	1.0 x 10 ¹¹
Revenues				\$3.2 x 10 ⁹
\$/Minute	.01	.006	.06	.04
\$/Adult Exposure	.005	.002	.11	.032
P (payoff)	1.1 x 10 ⁻⁷	1.1 x 10 ⁻⁴	9.7 x 10 ⁻⁵	.05
Payoff/\$Minutes	1.1 x 10 ⁻⁵	.02	1.6 x 10 ⁻³	1.2
Payoff/\$ Exposures	2.2 x 10 ⁻⁵	.06	8.8 x 10 ⁻⁴	1.6

⁺Notional estimate

RESPONSES PER DOLLAR AS A FUNCTION OF AD SIZE



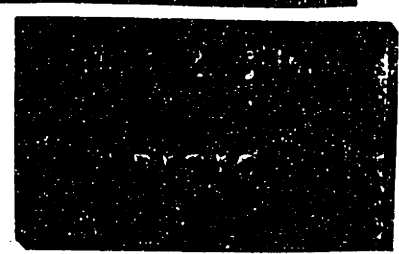
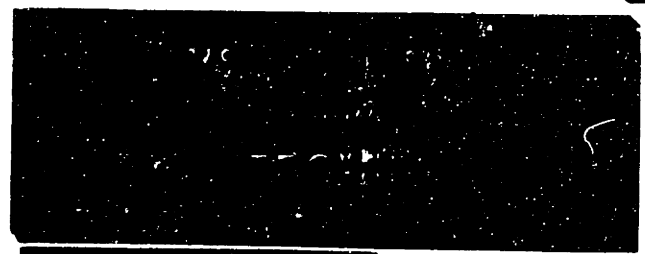
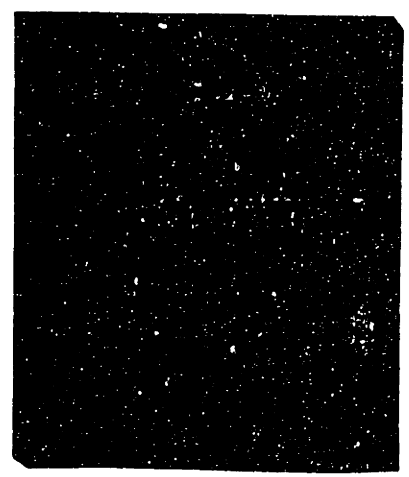
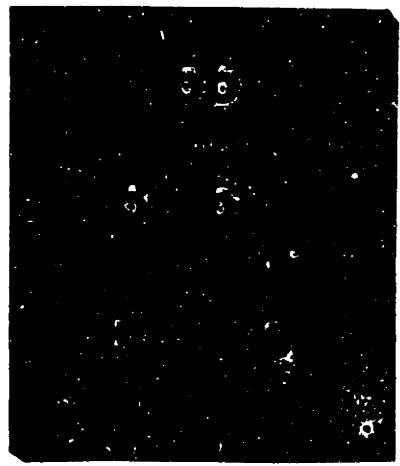
Source: Feldman & Halterman, 1963,
and NYPSA, Rates and Data,
12/82



178 PEOPLE WERE ASKED

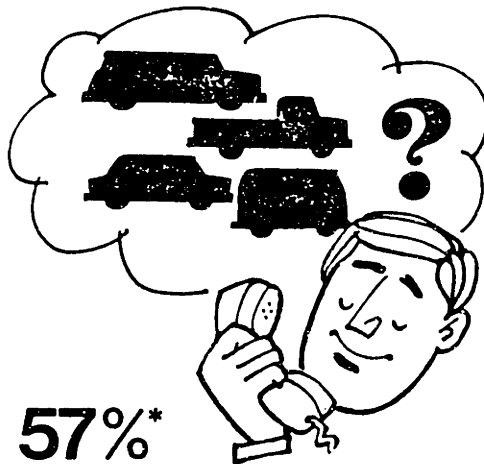
to look on pages 718 and 719 of the directory . . . assuming they needed a Dentist, "Which firm would they call first?"

153 or 86% referred to DISPLAY



- These were the reasons given for their choices:
- Reliability
 - Authorized Sales & Service
 - Special Features
 - Completeness of Lines or Services
 - Illustrations, Emblems, Slogans
 - Location

Who are your customers?



57%*
of Yellow Pages users
have no firm in mind—

NEWCOMERS, TRANSIENTS

- Must find new sources of supply

EMERGENCY BUYERS

- Unexpected need...fast service now

DISSATISFIED BUYERS

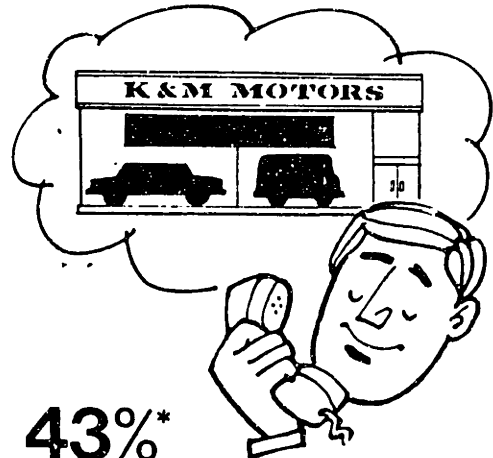
- Unhappy with present supplier

INFREQUENT BUYERS

- Have a need for seldom purchased item or service

COMPETITIVE BID BUYERS

- Make comparison...will buy



43%*
of Yellow Pages users
have a firm in mind—

RECOMMENDED CUSTOMERS

- Referred by a satisfied customer

ADVERTISING INFLUENCED CUSTOMERS

- Saw or heard your advertising

SOLICITED CUSTOMERS

- Received a visit, phone call or letter

PASSERS BY

- Saw your location, building, displays

FORMER CUSTOMERS

- Previously did business with you

These buyers are looking for meaningful information about products and services and the firm offering them!

TELL MORE TO SELL MORE!

**Here is what
will influence
people to do business
with YOU!**

Tell them what you will do for them...how you are different

Tell them how reliable you are

Tell them of your authorized brand name sales and services-illustrations and slogans

Tell them how easy it is to deal with you... credit, location, parking, hours

*Source Chilton Research Company

Ten Reasons Why It's Good Business To Do Business With . . .

Donnelley Directory




- 1. Everything Under One Cover.**
 You've come to depend on the walking fingers. And now you'll find them on the cover of the book that has it all. The Phone Book. Large print white pages, quick reference business white pages, quick reference business white pages and the good ol' Yellow Pages, presented in a readable and easy to understand directory.
- 2. Total Market Coverage.**
 Whether your business is located in St. Cloud, Downtown Orlando, Winter Park or Sanford, you will be listed in The Phone Book. You also have the option to buy one, two or all three editions. But, you'll only pay for the coverage you need. And what you'll pay is significantly less.
- 3. Lower Cost.**
 That's right, lower cost. But three times the book and three times the value. Sound like the answer to your Yellow Pages problems? Well, it is. And there's a whole lot more to our story.
- 4. Concern For Your Needs.**
 Our sales people know the Orlando Market. Their job is to sell you only what you need. We value your business and want to keep it. Therefore, our approach is friendly . . . not pushy.
- 5. User Friendly.**
 The Phone Book is the one your customers will use. Why? Because it's been designed to offer the user a telephone directory that is easy to read, easy to understand, full of useful information and . . . it's a real space saver. The one, the only book your customers will need.
- 6. Increased Business.**
 Isn't it about time you saw more return from your Yellow Pages advertising? And, at a great savings to you, but, more importantly, a time saving, easy to use book that will be just that . . . used. Advertise in the good ol' Yellow Pages and watch business boom.
- 7. Community Service.**
 The Phone Book is sure to become the most used book in the home. Because it is more than a source of numbers and addresses. Our book has the most comprehensive information section available. From maps to first aid advice to transportation schedules and everything in between, The Phone Book has it all.
- 8. Money Saving Coupons.**
 A real incentive to get new customers through your door. Support your advertising message by offering money saving coupons in the good ol' Yellow Pages. One more reason we say The Phone Book is the one, the only book you need.
- 9. A Lasting Relationship.**
 We're United Telephone Company of Florida and Donnelley Directory. A strong partnership. United Telephone provides nearly three-quarters of a million customer lines, and Donnelley published the first classified directory almost 100 years ago. We're committed to the Orlando market. We want to provide you with the best service and the best product at the best price—this year, next year, and for years to come.
- 10. The One To Keep.**
 The Phone Book is the only one to advertise in because it's the only book your customers will need. It's the one to keep.
 Want more information? Call Donnelley Directory at 628-5000.

COUPON
The Place to Stimulate Customer Action
MAKE AN OFFER THAT HAS REAL VALUE
USE LOGOS AND 42 PT TYPE MAXIMUM
Don't Forget Expiration Date
And Special Offer Exclusions
MONEY-SAVING COUPONS

DISPLAY ADVERTISING
The Ultimate in Yellow Pages Ads
THESE ADS ARE ALSO AVAILABLE
(NOT SHOWN)

DTQH - DOUBLE TRIPLE QUARTER (HORIZONTAL)	IBQ - INSIDE BACK QUARTER PAGE
HP - HALF PAGE	IBH - INSIDE BACK HALF PAGE
TQP - THREE-QUARTER PAGE	IBF - INSIDE BACK FULL PAGE
FP - FULL PAGE	

THIS AD OFFERS THE USE OF SHORT, BOLD HEADLINES



and Graphic Illustrations

24 PT BOLD TYPE IS PERMITTED

Billboard Advertising in the Yellow Pages
Use lengthy headlines to attract attention

SEVERAL COPY POINTS OR ILLUSTRATIONS CAN BE USED TO REINFORCE A STATEMENT




48 Point Bold Type Can Be Used

QC-QUARTER COLUMN

TQC-TRIPLE QUARTER COLUMN

Illustration can help tell your story and save space for copy points




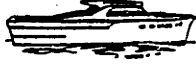
24 PT BOLD TYPE IS PERMITTED

CONSIDER BOXING YOUR PHONE NUMBER AND USING SIMPLE MAPS

DTS-DOUBLE THREE SIXTEENTHS COLUMN


- Use headlines of moderate length
- Descriptive subheads that lead readers into the sales message
- Use more than one illustration

36 PT bold type is permitted

DQC-DOUBLE QUARTER COLUMN

Logo or Headline can be used here



Use One Large or Several Small Illustrations

72 PT BOLD TYPE can be used to
Strengthen firm name and identity, add visual impact or create a more professional image

DHC-DOUBLE HALF COLUMN

For more information on Yellow Pages Advertising call your Donnelley Representative at 628-5000

How Ad Sizes Affect Results

This is the size of a
1/4
 column ad

Though only twice the size of the above, with effective copy and an attractive illustration this ad will produce

5 TIMES

the results obtained by the 1/4 column ad
 Actual "Cost Per Response" by comparison is

60% LESS

This ad is four times as large as the 1/4 column ad, yet, with effective copy and an attractive illustration this ad will produce

15 TIMES

the results obtained by the 1/4 column ad

Actual "Cost Per Response" compared to the 1/4 column ad is

73% LESS

EFFECTIVENESS OF LISTING COLUMN ADVERTISEMENTS AS COMPARED TO A REGULAR LIGHT TYPE LISTING.

Bold Type Listing	3 to 1
1-inch Advertisement	9 to 1
DISPLAY ADS (Ratio to Regular Light Type Listing)	
1/4 Column	13 to 1
1/2 Column	64 to 1
1 column	193 to 1

* CONSUMERS USE OF THE YELLOW PAGES. By Sony P. Feagin, Associate Professor of Business Administration, School of Business, The University of Kansas; Joan C. Kuehmon, Associate Professor of Marketing, The Graduate School of Business, Indiana University.

NYNEX
 Information Resources ©

APPENDIX D

THE RESULTS

The following report provides the key findings from the 1985 National Yellow Pages Usage Study. Based on the first quarter of 1985 (12 measurement weeks during January, February and March 1985), a total of 2,960 telephone interviews were conducted among a random sampling of persons age 18 and over residing in telephone households in the continental United States.

98.8%

of all adults indicated familiarity with the Yellow Pages, hence awareness of the Yellow Pages is virtually universal.

76.5%

of all adults referred to the Yellow Pages during the typical month in the first quarter 1985.

55.8%

of all adults in the U. S. referred to the Yellow Pages in a typical week.

3.35

references to the Yellow Pages were made, on the average, by adult users in the average week, or 46 million references in the typical day. Among all persons, average frequency of usage is 1.87 references.

18.6%

of all adults used the Yellow Pages on the typical day during the first quarter of 1985.

THE 1985 NATIONAL YELLOW PAGES USAGE STUDY

FIRST QUARTER 1985 ESTIMATES OF PAST 7 DAY USAGE OF THE YELLOW PAGES

	Population (000)	% of Pop.	Past 7 Day Yellow Pages Usage Average Frequency	Past 7 Day Uses (000)	% of Uses	Usage* Index
TOTAL	170,429	100.0	1.87	318,702	100.0	100
SEX						
Males 18+	81,028	47.5	1.86	150,672	47.3	100
Females 18+	89,401	52.5	1.88	168,030	52.7	100
AGE						
18-24	28,977	17.0	2.36	67,301	21.1	124
25-34	40,405	23.7	2.61	103,784	32.6	138
35-49	41,709	24.5	1.89	76,758	24.1	124
60-64	32,972	19.3	1.60	51,918	16.3	85
65+	26,366	15.5	0.73	18,941	5.9	38
EDUCATION						
Less than HS Grad	33,052	19.4	0.86	28,081	8.8	45
High School Grad	66,377	38.9	1.79	117,376	36.8	95
At Least Some College	71,000	41.7	2.47	173,245	54.4	131
HOUSEHOLD INCOME						
Under \$10	28,632	16.8	1.28	33,684	10.6	63
\$10-24.9	61,014	35.8	1.60	89,724	28.2	79
\$25-39.9	48,231	28.3	2.59	114,813	36.0	127
\$40+	32,552	19.1	2.69	80,481	25.2	132

* Index = % Users/% Population

Source: Statistical Research, Inc.

FIRST QUARTER 1985

ON THE TYPICAL YELLOW PAGES REFERENCE....

55.0%

referred to at least one Yellow Pages advertisement (the average was 3.2 advertisements). 42.5% looked at the listings only.

56.9%

had the name of a store, firm or establishment in mind prior to looking in the Yellow Pages; however, 40.2% did not have a name in mind.

82.5%

of all Yellow Pages references resulted in a contact of a store or business.

45.0%

of these Yellow Pages references resulted in the purchase of a product or service (that's 20.7 million purchases on the typical day). Among those who did not make a purchase, 75.2% indicated they were either very or somewhat likely to make a purchase.

Of those adults who did make a purchase:

- ... 29.7% spent \$25 or less on that purchase.
- ... 28.6% spent from \$25 to \$100.
- ... 15.6% spent from \$100 to \$500.
- ... 6.8% spent over \$500.
- ... 19.3% did not know how much was spent or had not been billed at the time.

ESTIMATES OF AGGREGATE YELLOW PAGES USE BASED ON SMKB 1980

	<u>Home (000)</u>				<u>Business (000)</u>			
	Day	Week	Month	Year	Day	Week*	Month**	Year***
High	24647	172529	749268	8.97×10^6	32848	164240	712802	8.21×10^6
Medium High	20883	146181	456061	7.60×10^6	27874	139370	604866	6.97×10^6
Medium Low	15002	105014	456061	5.46×10^6	19478	97390	422673	4.87×10^6
Low	10483	73381	318683	3.82×10^6	13760	68800	298592	3.44×10^6

Total

High	3.37×10^8	1.46×10^9	1.72×10^{10}
Medium High	2.86×10^8	1.24×10^9	1.46×10^{10}
Medium Low	2.02×10^8	8.79×10^9	1.03×10^{10}
Low	1.42×10^8	6.17×10^9	7.26×10^{10}

Note: *Business Week = 5 days
 **Business Month = 21.7 days
 ***Business Year = 250 days

Days are not strictly addable because At Home week is calculated on the basis of 7 days and the Business Week on the basis of 5 days.

TYPES OF INFORMATION SOUGHT BY RESPONDENTS
WHO TURNED TO THE YELLOW PAGES ADVERTISEMENTS FOR INFORMATION

Information	Number of Respondents	Percent Distribution
Types of goods or services offered	351	46.9
Availability of branded products	115	15.4
Location of firms or organizations	90	12.0
Price information or availability of credit	58	7.7
Hours of operation	27	3.6
Delivery information	14	1.9
Other information about specific practices and policies	94	12.5
Total Responses	749	100.0

Source: Feldman & Halterman, 1963, Table 2-7.

INFORMATION "USUALLY" AND "EVER" SOUGHT IN THE YELLOW PAGES

<u>Use</u>	<u>Use of the Yellow Pages</u>	
	<u>(%)</u>	
	<u>Agree That Ever Used This Way</u>	<u>Agree That Usually Used This Way</u>
To find a dealer who offers specific products, brands, services	89	77
To call ahead to find if a specific product is available	87	65
To find the phone number of a dealer I already know about	85	61
To check the address of a dealer I intended to visit	82	60
To call ahead for the price of a product	78	56
To get a store's phone number to call about the hours	85	55
To get a store's number to call to get directions to the store	73	33
(Base = 200)		

Source: Foote, Cone & Belding/Wahlstrom, 1981 (p. 44)

APPENDIX E

DEMOGRAPHIC PROFILE OF THE "LIKELY"* USER

	Group	% of Total User Population	Index
AGE	25-34	25.0	111
EDUCATION	College Graduate	17.8	120
	Attended College	19.1	115
EMPLOYMENT	Employed Women	27.6	110
	Employed Part-time	9.2	113
	Professional/Manager	21.3	119
	Clerical/Sales	16.2	110
ETHNICITY	Not White or Black	2.0	111
LOCATION/ HOUSING	West (Census)	22.7	110
	Pacific (Market)	18.1	110
	Own House of Value \geq \$40K	42.8	110
HOUSEHOLD INCOME	\$35K+	16.3	117
	\$25K	35.5	114
	\$20-25K	14.2	112

*Index Score \geq 110

Source: Simmons, 1980 (Vol. P-12, p. 0022)

DEMOGRAPHIC PROFILE OF THE "UNLIKELY"* USER

Group		% of Total YP User Population	Index
AGE	65+	11.8	79
EDUCATION	Did not Graduate High School	23.6	78
EMPLOYMENT	Not Employed	35.2	90
ETHNICITY	Black	8.1	74
HOUSEHOLD	Divorced/Separated/Widowed	13.6	83
	Single Person Household	9.7	83
LOCATION/ HOUSING	South (Census)	29.4	90
	County Size D**	12.8	81
	Non-Metro	23.9	89
HOUSEHOLD INCOME	\$5-10K	11.3	84
	<\$5K	6.2	68

*Index Score \leq 90

**County not in largest 25 SMSAs and 40,000 > County Population

Source: Simmons, 1980 (Vol. P-12, p. 0022)

DEMOGRAPHIC PROFILE OF THE "LIKELY"* FREQUENT USER

Group		% of Frequent User Population	Index
EDUCATION	College Graduate	19.8	134
	Attended College	20.5	124
EMPLOYMENT	Employed Women	29.5	117
	Employed Part-time	10.9	135
	Professional/Manager	23.0	135
	Clerical/Sales	17.7	120
LOCATION	West (Census)	25.0	121
	West Central (Marketing)	19.9	115
	Pacific (Marketing)	19.5	119
	County Size C**	20.3	120
	Metro Central City	38.2	122
HOUSEHOLD INCOME	\$35K+	17.5	126
	\$25K+	37.4	120

*Index Score \geq 115

**County not in 25 largest SMSAs and 40,000 < Population < 150,000

Source: Simmons, 1980 (Vol. P-12, p. 0022)

DEMOGRAPHIC PROFILE OF THE "UNLIKELY"* FREQUENT USER

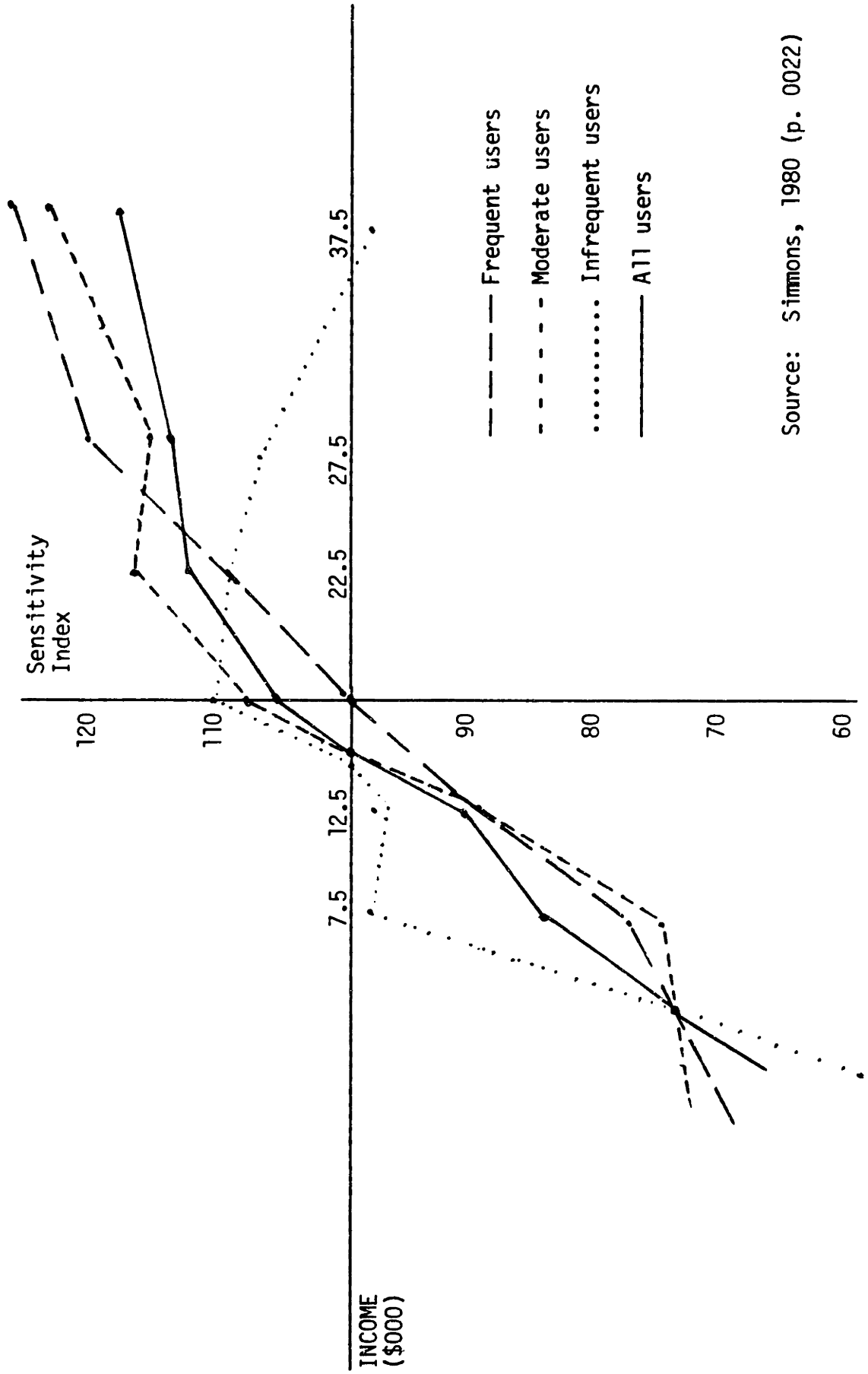
	Group	% of Frequent User Population	Index
AGE	55-64	11.5	85
	65+	9.6	64
EDUCATION	Did Not Graduate High School	21.7	71
ETHNICITY	Black	8.3	75
HOUSEHOLD	Divorced/Separated/Widowed	13.8	84
	Single Person Household	9.7	83
LOCATION	Northeast (Census)	17.3	79
	Northeast (Marketing)	18.5	78
	County Size D**	10.3	65
	Non-Metro	21.5	80
HOUSEHOLD INCOME	\$5-10K	10.6	78
	<\$5K	6.5	71

*Index Score \leq 85

**County not in largest 25 SMSAs and 40,000 > County Population

Source: Simmons, 1980 (Vol. P-12, p. 0022)

YELLOW PAGES USES AS AS FUNCTION OF INCOME



Source: Simmons, 1980 (p. 0022)

MAGAZINES LIKELY TO BE READ BY THE YELLOW PAGES USER

Magazine Title	Used at Home Or Elsewhere	Used Once a Week or More
	$Z \geq 1$	$Z \geq 1$
American Baby	122	154
Baby Talk	-**	158
Barron's	-	169
Bon Apetit	123	-
Cuisine	122	-
Decorating Craft & Ideas	121	-
Forbes	119	148
Fortune	120	-
Golf Magazine	-	158
Gourmet	127	175
Harper's/Atlantic	124	172
Harper's Bazaar (sic)	120	-
House Beautiful	119	-
Money Magazine	120	-
Ms.	123	178
National Lampoon	119	154
The New Yorker	121	-
Omni	122	151
Psychology Today	119	156
Scientific American	124	-
Smithsonian	123	155
Sunset	124	152
Travel & Leisure	-	167
Travel/Holiday	122	167
Wall Street Journal	124	-
Working Woman	-	145
World Tennis	-	158
	$x = 111$	$x = 128$
	$S.Dev. = 7.85$	$S.Dev. = 19.04$
	$119 = Z = 1$	$147 = Z = 1$

**A dash ("-") indicates that the readership index in this category was not $\geq Z = 1$.

Source: Simmons, 1980 (Vol. P-12, pp. 0024-0025)

MAGAZINES UNLIKELY TO BE READ BY THE YELLOW PAGES USER

Magazine Title	Used at Home Or Elsewhere	Used Once a Week or More
	Z \leq 1	Z \leq -1
*Car Craft	101	77
*Chic	100	-**
Ebony	83	90
Essence	88	103
Flower & Garden	99	-
Gentleman's Quarterly	98	-
Jet	83	94
National Enquirer	102	105
National Supplement Package	-	108
New York Times Daily Edition	-	109
New York Times Magazine	-	107
1001 Decorating Ideas	-	105
Organic Gardening	102	108
Parade	-	104
Popular Hot Rodding	102	-
Soap Opera Digest	102	108
Southern Living	-	93
Sport	-	103
Sports Afield	103	-
The Star	98	101
Sunday	-	103
True Story	96	-
TV Guide	-	108
U.S.	-	147
	\bar{x} = 111 S.Dev. = 7.85 103 = Z = -1	\bar{x} = 128 S.Dev. = 19.04 109 = Z = -1

*Small sample size makes these figures relatively unreliable.

**A dash ("-") indicates that the readership index in this category was not $\leq Z = -1$.

Source: Simmons, 1980 (Vol. P-12, pp. 0024-0025)

APPENDIX F

BBPI PERFORMANCE OBJECTIVES
(\$000,000)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Revenues	800	928	1057	1204	1396
BOC Pub. Fee	384	445	507	578	670
Expenses	328	380	795	469	530
Net Income	45	52	63	79	99
ROE %	24	31	35	43	49
Return on Sales %	5.6	5.6	5.9	6.6	7.1

BBPI 1985 INCOME STATEMENT
(PARTIAL)

	(\$000,000)	
Revenues	800	
Local White Page Advertising	72	
Local Yellow Page Advertising	656	
National Yellow Page Advertising and Sales Commission	64	
Other Revenues - Rent/Custom Work	8	
Less: Uncollectible Revenue	(4)	
Publishing Fee	(384)	
 Total Revenues		 412
Expenses - Product/Project	275	
Local Sales Expense	96	
National Sales Expense	2	
Sales Promotion	16	
Production Expense	35	
Manufacturing Expense	86	
Delivery Expense	14	
Mechanization Expense	6	
Other Expense	6	
General Administration Expense	11	
Rent Expense	6	
Pensions/Benefits	18	
Other Expense	8	
 Total Expense		 328
 Taxes	 39	
 Net Income		 45