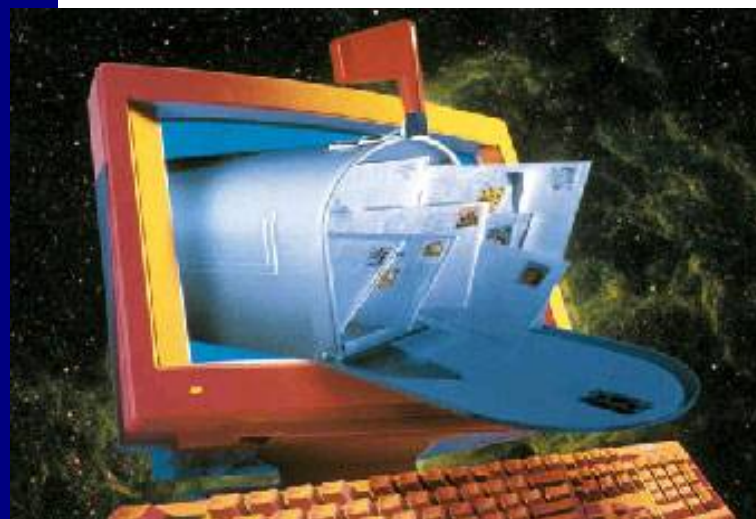




The National Regulatory Research Institute

**Consumer Utility
Benchmark Survey:
Value for Money: The
Relationship between
Consumer Perceptions
of Price and Quality of
Service for Local and
Long Distance
Telephone Services –
Executive Summary**



**CONSUMER UTILITY BENCHMARK SURVEY:
VALUE FOR MONEY: THE RELATIONSHIP BETWEEN
CONSUMER PERCEPTIONS OF PRICE AND QUALITY OF
SERVICE FOR LOCAL AND LONG DISTANCE TELEPHONE SERVICES**

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EXECUTIVE SUMMARY

The increase in the number of consumer complaints about telephone service submitted to state regulatory commissions and to the Federal Communications Commission in the past few years emphasizes the need to better understand the factors that drive consumers to complain. Price and quality are two fundamental characteristics of any service and tend to trigger reactions from customers when the level in which they are provided does not match consumer expectations of service. To express their dissatisfaction with the price and quality of the service provided by their telephone companies, consumers may switch providers when alternative operators or technologies are available, complain to their operator or to an authority or use a mix of both tactics to obtain results. Other consumers, however, choose to do nothing about it.

This report looks at the interaction of price and quality factors in consumer perceptions of the telephone service provided by their local and long distance companies, as revealed in the NRRI's Consumer Utility Benchmark Survey (CUBS). Specifically, the report compares the opinions about quality of service and the type of actions taken (complain and/or switch providers) of consumers who considered that the price of local and long distance telephony was high (High Price group) to those who considered the price to be fair or low (All Others group). The impact of consumers' knowledge of the availability of competition in local service on their perceptions of quality is also explored.

People who said prices were high showed statistically significant differences from the rest of the respondents: (a) They were more dissatisfied with customer service, (b) they were more likely to contact the service provider to complain about quality of service problems, and (c) they were more likely to think that competition had a negative impact on the price and quality of local and long distance telephony.

Compared to consumers who thought the price of telephone service was fair or low, consumers in the High Price group were more likely to be dissatisfied with the customer service provided by their local and long distance telephone companies. On average, respondents in the High Price group gave their operators a "C-" (1.59 and 1.45 grade point average for local and long distance telephony customer service, respectively) compared to a "C" from the rest of the respondents.

Respondents in the High Price group were also more likely to contact their local and long distance telephone companies to complain about a quality of service issue and contacted them more often. Among the different areas of quality of service included in the survey, billing and rates were the problems that prompted consumers to contact their telephone companies the most.

Interestingly, consumers in the High Price group were more likely to think that they had no choice of local service provider in their area of residence, with an average of 47 percent of respondents compared to an average of 34 percent of consumers in the All Others group. Consumers who perceived the price of service to be high were also more likely to have a negative perception of the impact of competition (choice) on the local telephone industry, which they believed had lowered the quality of service provided and increased the price they paid for the service.

Despite their higher level of dissatisfaction with their original local and long distance service provider, respondents in the High Price group tended to stay with these

providers in higher numbers than the rest of the respondents. Those who did switch were more likely to be dissatisfied with the service provided by their new local and long distance telephone service operators, and they also switched long distance service providers in higher numbers. All these results partially explain the tendency of consumers in the high price group to be more active complainers than those who thought the price of telephone service was fair or low.

In conclusion, precisely because not all dissatisfied consumers complain, analyzing the perceptions of those who do complain is useful from a regulatory perspective. The analysis of consumers' perceptions regarding price and quality of service provides insights on consumer expectations, priorities and concerns that might help regulators address areas of telephone service that are problematic for consumers, such as billing, as well as identify issues in which consumer education might be beneficial in order for consumers to take advantage of the choice of providers and technologies currently available to them.