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TELECOMMUNICATIONS SPECIAL

## Can I Put You on Hold? Profits Are Calling

*'Feature' Services Are Big Business for the Phone Companies, So Don't Expect a Letup*

**February 03, 1997** | KAREN KAPLAN | SPECIAL TO THE TIMES

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Necessity may be the mother of invention, but only the profit motive seems capable of explaining the staggering proliferation of telephone services such as call waiting, call return and caller ID.

At 50 cents a pop or a few dollars a month--seemingly spare change to a multibillion-dollar phone company--these "calling features" have grown to account for roughly 20% of the Baby Bells' telephone operating profit.

Together, the services generated \$4 billion in revenue last year, in the residential market alone, for the seven regional Bell operating companies. Analysts estimate that figure could rise to \$6 billion by 2000, with 75% of that pure profit.

That has led phone companies to introduce no less than 50 calling features, ranging from the useful to the outright ridiculous. Consider:

- \* Select call forwarding, which allows customers to choose which calls will follow them to another phone.
- \* Priority ringing (also called VIP alert and identa-ring), which assigns a distinctive ring to calls from pre-selected numbers.
- \* Anonymous call rejection (also known as "block the blocker"), which allows caller ID customers to reject incoming calls from people who refuse to reveal their phone numbers.
- \* Call mover, which allows a customer who disconnects his or her phone number upon moving to record a message announcing the new number.

For customers who feel overwhelmed by choices, there is little relief in sight. BellSouth, for example, recently hired a vice president for marketing whose entire job is to think up new calling features and bundle them into attractive packages.

"I think what you'll see is a proliferation of more and more of these," said William N. Deatherage, a telecommunications analyst with Bear, Stearns & Co. in New York. Deatherage expects the next onslaught to come in the form of voice-activated dialing services, so that a spoken command such as "Call Mom" can render the tedious process of dialing the number obsolete.

Fueling this boom is anticipation of the competitive local phone service promised by the Telecommunications Reform Act of 1996. As long-distance companies like AT&T, MCI and Sprint enter local markets and the Baby Bells invade one another's territories, phone companies will look to offset falling revenue in core businesses with the comparatively easy money that calling features bring.

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In California, Pacific Bell has responded to severe competition--and loss of customers--in the toll call market by stepping up its marketing and promotion of enhanced services. A celebrity spokesman touts services such as call return and caller ID in broadcast and print advertisements. The campaign has met with some success: Subscriptions for calling features have been growing at an annual rate of 10%, according to the company.

Revenue from calling features is especially important in the many parts of the country where phone companies charge below cost to provide a basic phone line and depend on selling a handful of high-margin features to push those accounts into the black.

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The software that makes these calling features work is installed at the switches that route calls over the network. The software costs less than \$15,000 per switch, and each switch serves about 10,000 customers. After the software is in place, the marginal cost of providing calling features to customers is close to zero, and the profit margins are correspondingly high.

"There are some expenses associated with service orders, record keeping and billing, but if you're charging \$2.50 or \$3 per feature per month, they're pretty profitable," said John Goldman, media relations manager for BellSouth Telecommunications in Birmingham, Ala.

But money is not the only reason why phone companies are offering dozens of the services, including seven different kinds of call forwarding. The companies feel they must offer an array of features in order to win new customers and keep the ones they already have.

"It's clearly very valuable in a competitive environment," said Pat Evers, marketing and communications manager for US West's voice products and services in Phoenix. "If you have these features loaded on a basic line, it makes that line much more difficult for competitors to replicate."

But analysts say they will certainly try.

Indeed, as newcomers prepare to enter the local phone business, they are likely to target customers who buy the most features, because they generate the most revenue.

"If AT&T had a crystal ball and they could figure out everybody who bought caller ID and call waiting, they'd go after every one of those customers with their guns a-blazing," said Brian Adamik, vice president of consumer communications at Yankee Group, a market research firm in Boston.

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