The Business Customer Segmentation Report for ABC Telco's YYY wire center is intended to accompany the "Discount Pricing Model" for ABC Telco's YYY wire center. The Discount Pricing Model is an Excel spreadsheet showing the revenues, profits, and costs associated with ABC Telco's customers in the YYY wire center. The model also allows users to see the results of offering discounts to individual customers or customer groups.

The Business Customer Segmentation report shows a lot of data that went into the Model, in particular, it:

- Provides an overview of the business customers in the area, including the services they demand.
- Determines the costs and revenues associated with servicing business customers.
- Determines the financial impact of offering various discounts for long-term contracts to various customer groups

Note that both the Report and the Model are prototypes. ABC Telco will be building Reports and Models for other wire centers internally.

The report is divided as follows:

Section 1 provides an analysis of the business customer groups by size: Very Small (1 to 3 lines), Small (4 – 20 lines), Medium (21 – 150 lines), and Large (more than 151 lines). Four graphs are used to present results:

- Business Customer Segmentation – shows the percentage of business customers falling in each customer group
- Access Line Distribution – shows the number of each type of access line (B1, Key, PBX and Centrex) by customer segment
- Revenue, Cost, and Profitability Impact – shows the total revenues, costs, and profits obtained from each customer group

Section 2 looks at the revenue streams in the analysis, by service type. Revenue streams include:

- Access line revenues
- Miscellaneous revenue
- Switched access (carrier) revenues
- USF revenues

Section 3 looks at the costs associated with each service type and customer segment. This information includes:

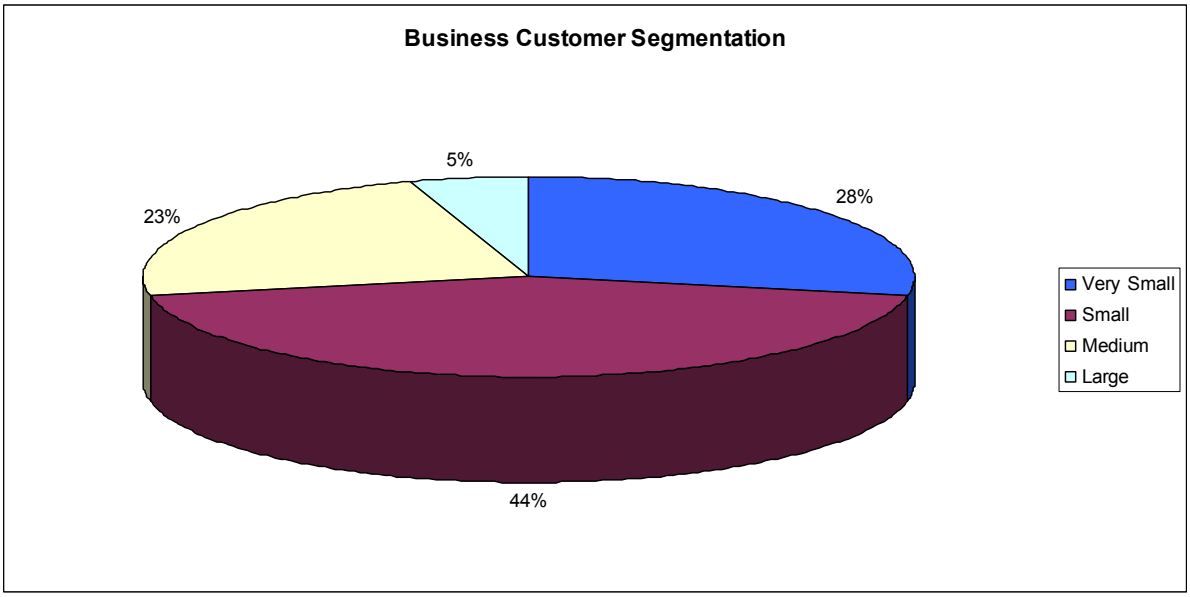
- Fixed, non-avoidable costs for providing service
- Avoidable costs per line, broken down by:
    - Access costs

    - Switch costs
- Total costs per line by line type and customer segment

Section 4 shows the profits associated with each service type and customer segment.

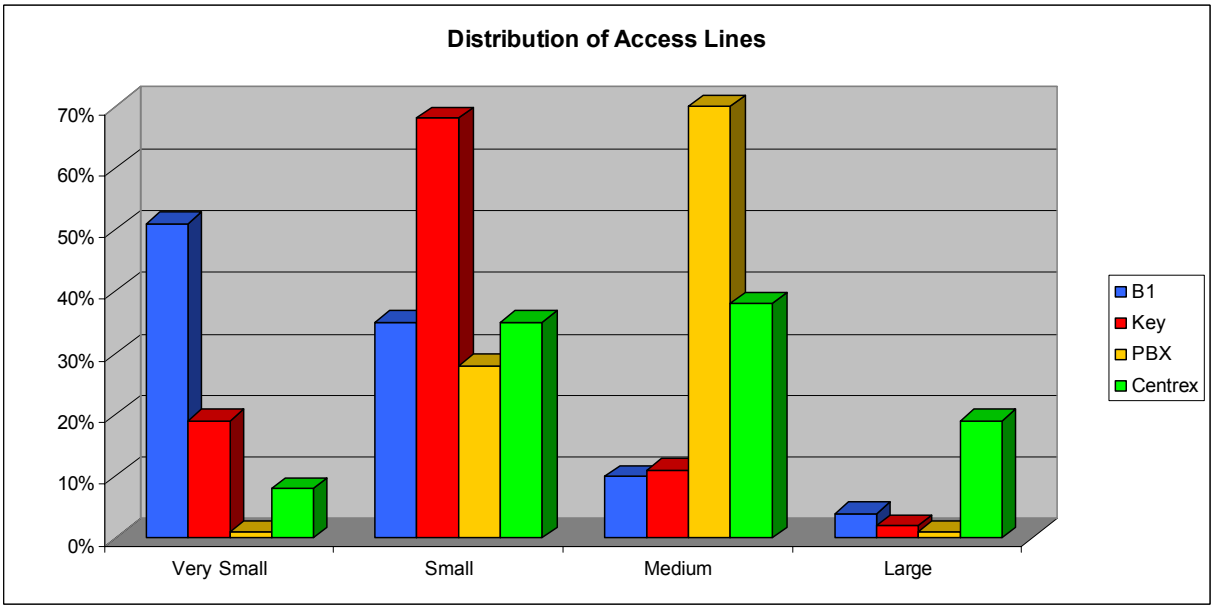
Section 1. Business Customer Segmentation

Figure 1.1 below shows the share of business lines in ABC Telco's YYY wire center used by Very Small, Small, Medium, and Large customers. Data was obtained from ABC Telco's ZZZ data warehouse.



In the YYY wire center, Very Small customers account for 28% of business lines, Small customers account for 44% of business lines, Medium customers account for 23% of business lines, and large customers account for the remaining 5% of business lines.

Figure 1.2 below shows the distribution of different types of access line by customer type.



As seen in the table above, Very Small customers tend to prefer B1 lines, and are more likely to prefer B1 lines than other types of customers, accounting for just over half of all B1 lines in the YYY wire center. Similarly, Small customers are more likely to use Key systems – almost 70% of key systems in the YYY wire center go to Small customers. PBX systems are the choice of Medium customers – about 70% of all PBX lines are used by Medium sized customers. Large customers tend to like Centrex, but Centrex is also popular among Small and Medium sized customers.

Section 2. Revenue Streams

Revenues used in this report and in the accompanying spreadsheet are average access line revenues, average other miscellaneous local revenues, carrier access revenues, and USF funds. (It is anticipated that later versions of the spreadsheet will have revenues that are more closely tied to actual customers.) Toll revenues are not included because ABC Telco is not a primary toll carrier ("PTC") in the area. The revenues were obtained as follows:

- *Average Access* and *Average Other Miscellaneous Local Revenues* line information was obtained from ABC Telco's ZZZ data warehouse at the customer and service type level. Specific billing elements employed are shown in Appendix A1 and A2, respectively.
- *Carrier Switched Access Revenues* were obtained from Carrier Access Billing System data at the exchange level and divided by access line counts to get per line revenues. Carrier Special and Dedicated Access revenues were not include because they could not be matched to particular business services. Specific billing elements employed are shown in Appendix A3.
- *USF revenues* are based on current the FCC mandated charge.

Table 2.1 shows the average revenues per line.

Average Revenue per Line					
	Access Line	Miscellaneous	Switched Access	USF	Total
B1	X	X	X	X	X
Key	X	X	X	X	X
PBX	X	X	X	X	X
Centrex	X	X	X	X	X

Section 3. Costs

Costs used in this analysis and the accompanying spreadsheet are fully distributed costs without return on investment or taxes (i.e., "FDCs") for each service type, as provided by ABC Telco's costing department. FDCs include depreciation and all expenses, and are based on historical accounting records and are mostly allocated to each service type by usage. These costs are used to support tariff rates and recover costs in areas that are regulated.

FDCs are provided at the operating company level. To assign them to individual service types in the YYY wire center, the costs were first separated out into traffic sensitive ("TS") and non-traffic sensitive ("NTS"). TS costs for a given service type were assumed to be roughly the same throughout the operating company, and were allocated based on estimated Minutes of Use patterns. NTS, on the other hand, were assumed to differ by geography, and were allocated using data from the HAI model.

Table 3.1 below shows the Average Cost per line.

Average Cost Per Line					
	Access		Local		Total
	NTS	TS	NTS	TS	Cost
B1	X	X	X	X	X
Key	X	X	X	X	X
PBX	X	X	X	X	X
Centrex	X	X	X	X	X

It is also necessary to account for avoided costs ("ACs"). ACs are costs that are avoided when customers are lost. Together with ABC Telco's cost study group, we have estimated the average avoided cost for all lines across the company to be approximately X%. (Appendix B1 shows this calculation in detail.) Note that avoided costs would only equal this figure in the unlikely event that a competitor entered the market through a complete facilities overbuild – thus, we chose to use a lower figure of Y%.

Table 3.2 below shows the total average cost per line in the YYY wire center.

Total Average Costs per Line		
	Avoidable Cost per line	Non-avoidable Cost per line
B1	X	X
Key	X	X
PBX	X	X
Centrex	X	X

Finally, taxes are assigned after total revenues and total costs are calculated and combined. Taxes on profits are assumed as follows: Federal Income Taxes ("FIT")equal to Z%, the company's effective FIT, and State Income Taxes ("SIT") equal to A%, the company's effective SIT in the state. Additionally, the public service commission assigns aa fee equal to B% of revenues.