Small And Medium Businesses: Early Insights

Volume 3 Attitudes

TR-112126-V3

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REPORT SUMMARY

As the sale of electric services becomes increasingly competitive, energy companies need to understand how customers perceive the strengths and weaknesses of providers across a spectrum of products and services. This four-volume report provides a comprehensive picture of how customers in the small and medium business segment choose, value, think about, and access important products and services.

Background

The onset of competition in the electric industry makes it ever more critical for energy providers to evaluate potential markets and to understand the characteristics and business needs of their customers. EPRICSG *Understanding Energy Markets* Target is developing baseline customer information to help satisfy that need. The Small and Medium Business Sector, comprised of businesses with less than $10 million in annual sales, is a crucial mass market for energy providers to examine as they seek profitable niches in a competitive environment. The market includes an estimated 8.2 million business, employs 45% of the U.S. workforce, produces 19 % of total U.S. business and government revenue, and affects 35% of total energy sales. Research into this market conducted during 1996 and 1997 has shown that this market has responded fairly quickly to new options made available by deregulation in telecommunications and other industries. Most businesses in the category reported that they would choose a supplier based on services/packages and not simply on price. For results of previous research on this market, refer to EPRI reports TR-107688, TR-109144, and TR-110406.

Objectives

To understand of how small and medium businesses purchase products and services; to provide insight into small and medium businesses perceive suppliers and service providers; to understand the sourcing preferences of small and medium businesses; to develop new insights into the channel preferences of small and medium businesses.

Approach

The project team used a business panel survey, BusinessWave™, to develop a comprehensive picture of the purchasing behavior and attitudes of the small and medium business segment. Use of the BusinessWave panel guaranteed a sample that is balanced by business type, geography, and size.

Results

Volume One of this report examines the loyalty of small and medium business customers to suppliers of electric, local phone, long distance, banking, supplies/raw materials, office equipment, and accounting services based on the performance attributes of convenience, package, price, performance, risk, innovation, and image.

Volume Two compares the electric power industry with other key product/service suppliers on issues like reliability, necessity and the accessibility of services and examines customer reception of several alternative bundles of utility-type products and services. Customers surveyed believe electricity suppliers deliver good value, but perceive the product as expensive. Results show electric suppliers are considered both reliable and easily found. An area of potential concern is that customers hardly think about their electricity purchases and don't have strong supplier preferences.

Volume Three delivers a thorough analysis of customer perceptions related to key attributes of both providers and the product and services they sell. Asked to rank various vendors on product value, customer service and organizational image, these businesses ranked their electric providers very highly on attributes like quality of installation, overall good quality service, and delivering good value; but they don't see electric companies as strongly focused on customer satisfaction.

Volume Four examines channel characteristics of purchases commonly made by businesses. Businesses use different channels to make different purchases for various products and services but give little thought to how they buy electric or local telephone service. Decision makers at these businesses seem indifferent to offers of special payment or transaction plans; but they strongly prefer dealing companies that are either local or have a strong local presence, especially for banking services.

EPRI Perspective

The overall objective of this report was to develop a more complete understanding of how businesses view their other purchases and to assess the degree to which these lessons can serve as analogs for electricity-oriented offerings. The study provides an important backdrop for market planners, product development staff, and sales managers of EPRI-member companies considering the development of targeted product and service offerings for the small and medium business market segment.

TR-112126-V1-4

Keywords

Market Profiles
Small and medium businesses
Decision making
Marketing channels

EXECUTIVE SUMMARY

Successful marketing engagements require thorough assessments of the marketplace being targeted. Addressing that requirement, the Understanding Energy Markets area, within EPRICSG, provides in a series of reports in 1998, a comprehensive examination of mindset and purchase patterns of the U.S. small and medium businesses. Specifically, the series - a four part set, provides important insights into switching behavior and loyalty, attitudes towards several types of providers, an assessment of how the electric purchase compares to other key purchases businesses make, and channels preferences. Through use of a carefully developed panel, BusinessWave™[1], business customers describe the value they place on various attributes of key products and services they purchase, including electric, local telephone, long distance, banking, supplies/raw materials, office equipment and accounting services.

The Understanding Energy Markets Area (UEM) has over the last three years worked to expand understanding of how "mass market" businesses, those with under $10 million in annual sales, purchase telecommunications and energy services. Collectively these businesses represent an important market, yet energy providers, in general, know less about their attitudes and preferences than residential or industrial markets.

Previous studies, published in 1996 and 1997 (EPRI Reports TR-107688 *An Introduction to the Small and Medium Business Marketplace* and TR-109144, *The Small & Medium Business market: An Investigation of Attitudes and Loyalty Toward Electric Providers*) delivered a wealth of information about the attitudes, telecommunications switching behavior and vulnerability to competitive electric offers. Findings included the insight that these small and medium businesses readily take advantage of competitive offers and new market entrants in the telecommunications market. It also revealed that while these consumers are price sensitive, for the most part, they indicate they make purchases on a price/value package rather than price alone.

[1] These Survey Investigations were developed using the BusinessWave™ panel, a panel carefully developed by PNR & Associates to provide the guarantee of a specified sample – balanced for business size, geographic area and SIC. See Appendix for more details on the panel and methodology.

In 1998, UEM expanded its investigation to address how small and medium business make purchases among traditionally competitive vendors of services that include banking, accounting, office equipment and raw materials/supplies. This expansion in scope will allow energy companies to not only get a clearer ideas of where they stand with these consumers, but also to discern what underlies decisionmaking in general. Results should help strategic planners identify attractive opportunities to offer new products and services or partner with other vendors.

Printed in four parts, the research examines the small and medium business market from four perspectives:

- Switching intent – continues to examine stated loyalty of these customers to suppliers based on various performance attributes related to five degrees of customer bonding – Awareness, Identity, Relationship, Community and Advocacy. Bonding is examined for providers of electric, local phone, long distance, banking, supplies/raw materials, office equipment and accounting services. Businesses were also asked to rate these suppliers on a range of attributes that included Convenience, Package, Price, Performance, Risk, Innovation and Image. These findings are thoroughly covered in *TR-112126-V1, The Small & Medium Business Market: An Assessment of Electric Switching Intent*.

- Evaluating Purchases – Businesses were asked to rate electric providers and the other suppliers/vendors, noted above, on dimensions of reliability, cost vs. value, and competitive readiness. Those surveyed believe electricity suppliers deliver good value, though the product is perceived as expensive relative to the other products and services they access. Results show electric suppliers are considered both reliable and easily found as well. An area of potential concern, but certainly not surprising, is that businesses indicate they hardly think about their electricity purchase and generally don't have strong supplier preferences. *TR-112126–V2, The Small & Medium Business Market: Evaluating Their Purchases*, compares the electric power industry with other key product/service suppliers on issues like reliability, necessity and the accessibility of services.

- Attitudes Toward Major Providers – Asked to rank various vendors on product value, customer service and organizational image, these businesses ranked their electric providers very highly on attributes like quality of installation, overall good quality service and delivering good value -- findings perhaps, which can be effectively leveraged in competitive markets. However, these customers don't necessarily see electric companies as strongly focused on their interests, indicating they don't see their electric companies making customer satisfaction a priority. *TR-112126–V3, The Small & Medium Business Market: An Assessment of Their Attitudes Toward Major Providers* delivers a thorough analysis of customer perceptions related to key attributes of both providers and the product and services they sell.

- Channels Preferences – Businesses use different channels to make different purchases – enjoying options to shop for office supplies and raw materials from a variety of vendors, while giving little thought to how they buy electric or local telephone service. Decision makers at these businesses seem indifferent to offers of special payment or transaction plans, but they strongly prefer dealing companies that are either local or have a strong local presence, especially for banking services. *TR-112126-V4, Small & Medium Businesses: A Study of Channel Attributes* examines channel characteristics of a number of purchases businesses typically pursue.

Taken together, these reports provide an interesting and comprehensive picture of the Small & Medium Business Market.

Switching Behavior

Customer bonding focuses on earning and keeping customer trust. The five degrees of customer bonding, as identified by Cross[2] are:

- ***Awareness*** – the weakest bond or simply an acknowledgment that the provider exists. This bond is shaky -- competition or any change in environment in which choices are made is a threat to sustaining it.
- ***Identity*** – the second level bond exists when the consumer can identify with either the company or with the product along some attribute. With products where there is little differentiation (such as the current state of electric service), this identification is weak and hence the bond is weak.
- ***Relationship*** – a bond where the customer begins to relate to the provider or product in a stronger way than simply identification. At this level, the customer begins to take a stake in the offering
- ***Community*** – occurs when customers feel an even stronger shared bond with a product, service or provider. At this level, the product is identified as a key part of customer's lives, and they willingly interact with others who have the same affinity or use the same product.
- ***Advocacy*** – a bond where the closest relationship is formed with customers. At this level, customers are seen actually becoming proponents for a product or service, actively communicating their positions about it.

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[2] Cross, Richard H. "The Five Degrees of Customer Bonding" *Direct Marketing* (October 1992), 33-35

Table 1 illustrates the level of bonding business customers identify they have with their providers and vendors.

Table 1
Bonding Score Means[3] for Electric and Other Providers

	Electric	Local Phone	Long Distance	Banking	Supplies / Raw Materials	Office Equipment	Accounting
Overall	**51.43**	**47.98**	**50.00**	**63.09**	**64.54**	**52.94**	**68.20**
Awareness	61.96	57.36	57.36	70.23	69.78	59.72	72.07
Identity	67.75	64.97	67.50	71.23	73.65	65.57	74.57
Relationship	27.70	26.58	27.86	52.97	51.03	35.68	61.34
Community	42.08	38.96	39.84	53.94	54.76	44.33	58.80
Advocacy	57.25	51.04	56.47	67.39	72.34	59.38	74.23

Source: BusinessWave™ and Small and Medium Business Data Base, EPRI, 1998

As the table demonstrates, electricity providers forge bonds which are relatively weaker when compared to accounting and banking services. While lower relative to other providers in general, among most degrees of bonding, they rate a little ahead of local telephone and long distance service providers.

At the most basic level, awareness is required before any other level of bonding can be attained. When there is little customer awareness, a typical business strategy is to build it through repetition of the marketing messages through mass media. The warning in newly competitive industries is that awareness, the lowest level of bonding, can be easily disrupted by messages from competitors. Also, with this tentative bond, communications is one way, supplier to customer. Each customer experience and interaction with the supplier at this point is critical.

While small and medium businesses have a higher level of bonding with banking, accounting and raw materials suppliers, they are not strongly bonded to their long distance suppliers. This suggests that even though long distance vendors are highly experienced in a competitive setting, they have not routinely formed strong bonds with their customers. This is supported by the strong rate of churn we see in these businesses' choice of long distance providers. Further analysis is required to determine whether developing the personal relationships that would reduce churn would be worth the costs and staff time.

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[3] Based on summated scales from the bonding battery. Indexed on scale from 1 to 100 to allow for comparability across measures and across industries.

Purchases

While all 1998 reports provide a comparative analysis of electricity versus other purchases commonly made by small and medium businesses, TR-112126-V2 *The Small & Medium Business Market: Evaluating Their Purchases* is intended to focus on that comparative assessment. The objectives of this report are to develop a more complete understanding of how businesses view their other purchases and to begin to understand the degree to which these lessons can serve as analogs for electricity oriented offerings. The industries covered include: electric, long distance, local telephone, banking, accounting services, office equipment, and suppliers of raw materials (goods or materials that are "used up" as a business performs its major functions).

These purchases were analyzed along 3 dimensions as follows:

- ***Reliability Dimension***
  - Product vs. Service
  - Reliable vs. Inconsistent
- ***Cost / Value Dimension***
  - Costly vs. Inexpensive
  - Excellent Value vs. Poor Value
  - Satisfies vs. Dissatisfies
- ***Competitive Readiness Dimension***
  - Optional vs. Necessary
  - Easily Found vs. Unavailable
  - Strong Preference vs. No Preference
  - Taken for Granted vs. Thought about

Electric Power Purchase

Each purchase was found to have a unique profile of characteristic strengths and weaknesses in the mind of business decision makers. Electricity is viewed as a necessity, like local phone service. Second only to local phone service, it is considered crucial to meeting company performance goals. Finally electric service is perceived as easily found, reliable, satisfying. While analysis indicates that business customers recognize electricity and its significance to their businesses, it is also in a category for which business customer express little preference towards specific providers. Although each purchase profile is unique, the profile of the local telephone service purchase is very close to that of the electricity purchase. Table 2 provides these numeric findings.

Table 2
Purchase Image Components (Means)

Image Component		Electric Company	Local Telephone	Long Distance	Banking	Office Equipment	Accounting Services	Raw Material
Product/Reliability Dimension								
Product	Service	4.7	5.4	5.6	6.3	2.1	6.7	3.1
Reliable	Inconsistent	2.0	2.6	2.5	2.9	3.0	2.7	3.0
Cost/Value Dimension								
Costly	Inexpensive	2.8	2.5	3.1	4.0	2.6	2.9	3.1
Excellent Value	Poor Value	3.8	4.4	3.7	3.8	3.7	3.3	3.5
Satisfies	Dissatisfies	2.1	3.2	3.3	3.4	2.8	2.8	2.9
Competitive Readiness								
Taken for Granted	Thought About	3.2	3.9	5.0	5.8	5.1	5.9	5.6
Optional	Necessary	7.9	7.7	6.8	6.9	6.1	6.0	6.9
Strong Preference	No Preference	5.0	3.7	3.0	2.4	4.3	2.7	2.6
Easily Found	Unavailable	1.6	2.1	1.8	1.4	2.2	2.4	2.7

Source: BusinessWave™ and Small and Medium Business Data Base, EPRI, 1998

Business Attitudes

Report, TR-112126-V3, *The Small & Medium Business Market: An Assessment of Their Attitudes Toward Major Providers*, delivers an evaluation of service providers using 10 specific attitude attributes and a measure of overall impression. Customers' responses compare how providers of electric, local phone service, long distance, banking, office supplies, accounting and raw materials "stand" in customer perceptions relative to each other. Respondents provided responses in the following areas: *Product value, Customer service, and Organizational image*. Some illustrative findings are provided below followed by table3 where the numeric comparative ratings can be found.

Product Value Measures

- **Provides a Good Value** – Electric is rated second to accounting services, while local telephone service received the poorest rating.
- **Good Installation Services** – Electric rated the highest, with office equipment lagging furthest behind.
- **Too Expensive** – Electric was viewed as expensive, though not to the degree it was in 1997.

Customer Service Measures

- **Makes Customer Satisfaction a Priority** – Electric is rated ahead of local and long distance telephone service, but behind other suppliers, particularly banking and office equipment.
- **Responsive to Problems** – Electric is rated ahead of all other suppliers on this count, with office equipment in second place.
- **Difficult to Deal With** – Only office equipment suppliers were perceived more favorably than electric companies.
- **Overall Good Quality Service** – Electric rated best of all suppliers, though the mean rank of 7.08 is down slightly from a 7.12 recorded in 1997.

Organizational Image Measures

- **Trustworthy** – Electric is rated behind only banks and office equipment suppliers. Long distance was the most poorly rated by this measure.
- **Too Big and Bureaucratic** – Electric is rated a little more favorably than local and long distance phone services, but well behind the other businesses, which are traditionally competitive.
- **Concerned With Environment** – Electric is perceived as the most "environmentally conscious" of suppliers studied, although the ranking of 5.5 is down from 5.93 recorded in 1997.

Table 3
Attribute Means for Various Providers

	Electric Company	Local Phone	Long Distance	Banking Services	Office Supplies	Accounting Services	Raw Materials
ATTRIBUTE							
Product Value Attributes							
Provides a good value	6.14	5.62	6.07	5.94	6.15	6.08	6.01
Good installation services	6.78	6.16	6.32	6.18	5.81	5.67	5.86
Too expensive	5.89	6.40	5.73	5.60	5.84	5.39	5.37
Customer Service Attributes							
Customer satisfaction a priority	5.71	5.43	5.62	6.01	5.83	6.33	5.80
Responsive to problems	6.83	6.17	6.09	6.28	5.78	6.55	5.98
Difficult to deal with	3.70	4.26	4.35	4.01	4.04	3.50	3.90
Overall good quality service	7.08	6.38	6.52	6.54	6.10	6.46	6.29
Organizational Attributes							
Is trustworthy	6.51	6.14	5.84	6.68	6.13	6.88	6.07
Too big and bureaucratic	5.77	6.20	5.91	5.61	4.61	3.68	4.51
Concerned with environment	5.55	5.10	4.90	4.72	4.59	4.97	5.12
OVERALL	**6.63**	**6.04**	**6.17**	**6.36**	**6.04**	**6.79**	**6.27**

Channels Preferences

The fourth of these reports, TR-112126-V4, *Small & Medium Businesses: A Study of Channel Attributes* is aimed at increasing the understanding of business customers' channel preferences. This study marks an initial evaluation of how business customers consider "how" and "where" they purchase products. The intent is to provide energy companies with an idea of what product distribution characteristics will best serve as components of their overall marketing strategy in deregulated and competitive markets. Elements considered include: reach of the provider, transactional options, service opportunities and the importance of "shopping" for the best value when making a particular purchase.

Consistent with the products studied in each of the three other reports discussed above, electricity, office supplies, banking, local phone, long distance phone, accounting services and raw materials were examined. Businesses were asked to consider 30 factors associated with channels including:

- Whether the channel reflects an appropriate scope or reach (e.g. large vs. small, local vs. regional)
- Whether the channel is appropriate for the type of supplier or product.
- Whether the channel provides an appropriate transaction process
- Whether the channel enables an appropriate level of personal attention or customization.

Key findings of this study include:

- Other than a strong preference for dealing with local companies, there are no distinct purchase requirements for electricity.
- Businesses view electricity as a product where there is little differentiation.
- Business decision-makers don’t feel a need to spend time shopping, comparing products or otherwise considering their electricity purchase.
- Small businesses aren’t necessarily receptive to establishing a personal relationship with their electric provider and for the most part are indifferent to payment plans and other transactional services.
- The opportunity to obtain tailored offerings, (behind localness) is the second most significant favorable channel feature identified by small and medium businesses.
- For most transactions, small and medium businesses like channels that provide them the opportunity to “shop”, so they can compare, spend time thinking-though a purchase and interacting with providers’ staff. However, they don’t express a desire for this when purchasing electric or local phone service, likely because they’re unaccustomed to choice. Preparing for competition, energy providers may find value in understanding how these businesses choose among competitive vendors when making other purchases.

Summary

Printed in four parts, the research, in 1998, on the small and medium business market sector examines market from four perspectives:

- Switching intent – continues to examine stated loyalty of these customers to suppliers
- Evaluating Purchases – rates electric providers and the other suppliers/vendors on dimensions of reliability, cost vs. value, and competitive readiness.
- Attitudes Toward Major Providers – ranks various vendors on product value, customer service and organizational image.
- Channels Preferences – provides initial insights into how businesses purchase key products and services.

Taken together, these reports provide an interesting and comprehensive picture of the Small & Medium Business Market.

CONTENTS

LIST OF FIGURES

LIST OF TABLES

1

INTRODUCTION

As the sale of electric services becomes increasingly competitive, it's important for energy providers to examine what customers perceive as their providers' relative strengths and weaknesses across a spectrum of products and services. EPRICSG, through its Understanding Energy Markets (UEM) area, is conducting ongoing market research into such issues focused on the critically important mass market represented by small and medium businesses. This report is one in a series of four in 1998 which examines how they choose, value, think about and access important products and services.

The report series in 1998 will include *TR-112126-V1, The Small & Medium Business Market: An Assessment of Electric Switching Intent*, which examines these customers' loyalty to providers of key products and services and the relative strength of their electric provider on key attributes linked to provider choices. *TR-112126-V2, The Small & Medium Business Market: Evaluating Their Purchases,* compares the electric power industry with other key product/service suppliers in terms of issues like reliability, necessity and the accessibility of services. It also examined customer reception of several alternative bundles of utility service type products and services. *TR-112126-V3, The Small & Medium Business Market: An Assessment of Their Attitudes Toward Major Providers* examines customer perceptions related to key attributes of their main providers as well as the product and services they sell. Electric utilities are comparatively highly rated for quality of installation and responsiveness to problems – findings perhaps, which can be effectively leveraged in competitive markets. Finally, *TR-112126-V4, Small & Medium Businesses: A Study of Channel Attributes* examines channel characteristics of a number of purchases businesses typically pursue.

Taken together, these reports provide an interesting and comprehensive picture of the small and medium business segment.

Background

The Small and Medium Business Sector is a crucial mass market for energy providers to examine as they seek profitable niches in a competitive environment. This market, which includes an estimated 8.2 million businesses, employs 45 percent of the U.S. workforce, produces 19 percent of the total U.S. business and government revenue and affects 35 percent of the total energy sales is a significant market not readily understood.

Small and Medium Businesses are defined in this series of studies as businesses with less than $10 million in annual sales which operate as independent entities at their business premise.

Research into this market conducted during 1996 and 1997 has shown that this market has responded fairly quickly to new options made available by deregulation in other industries, particularly telecommunications. Although cost sensitive, the small and medium business market cannot be pursued on price alone. In making energy supplier decisions, most businesses in the category reported that they would choose a supplier based on the service/packages offered not on price alone. (For results of previous research in this market, refer to EPRI Reports: TR-107688, *An Introduction to the Small and Medium Business Marketplace (1996)*, TR-109144, *The Small & Medium Business Market: An Investigation of Attitudes and Loyalty Toward Electric Providers (1997)*, and TR-110406, *Listening to Small and Medium Businesses in Open Energy Markets, (1998)*.)

The investigations in 1998 are developed using a business panel survey, BusinessWave™, originated and operated by PNR & Associates. (Please see Appendix B for a description of the methodology.) The benefits of using this panel are outlined in Appendix A. Predominant factors include the guarantee of a specified sample – size, geographical balance, SIC balance, and business size balance.

As identified above, the series of small and medium business investigations undertaken in 1998 are focused in the following general areas across several purchases they classically make – banking, accounting services, long distance phone service, local phone service, office supplies, raw materials, and electricity:

- Developing an understanding of how small and medium businesses purchase a set of products and services, identifying the perceived characteristics of the product or service, and understand the relationship of energy relative to those purchases..
- Providing insight into how small and medium businesses perceive and their attitudes towards the relative characteristics of suppliers and service providers in areas that include electric, natural gas, local telephone, long distance telephone, financial services, office equipment and raw materials

- Developing an understanding of sourcing preferences among small and medium businesses, including an understanding of the degree of bonding business customers have for their important providers.

- Developing new insights into channel attributes -- the relative importance of provider scope, customer servicing requirements, and transaction options as they apply to channel preferences.

2

BUSINESS ATTITUDES

The focus of this report is to provide an increased understanding of the underlying attitudes small and medium business customers have toward their major providers in other industries. Specifically, customers evaluated the performance of and reported their attitudes toward their electric company, as well as the local telephone company, long distance telephone companies, banks, office supply providers, accountants, and suppliers of raw materials.

The topics included in this business attitude research are designed to meet the following needs:

- Developing an understanding of business' attitudes toward their electric providers and other providers in order to understand the choices these businesses make in a competitive market.
- Presenting a detailed examination of customers' current perceptions of electric providers and providers from various industries.
- Comparing the findings from past image research with those from 1998
- Explaining how various image attributes contribute to customers' overall ratings of electric service providers.

3

ATTITUDE ATTRIBUTES

This report provides an evaluation of service providers using 10 specific attitude attributes[4], each of importance to the customer and overall customer satisfaction. Electric providers are compared to several other providers along these attributes to assess how they "stand" in customers' perceptions. The overall rating for each service provider is also presented. In addition, a model is developed to lend insight into the influence of each attribute on customers' overall perception and rating of their electric provider.

Respondents rated their electric and several other providers along the following dimensions:

1. *Product value*
2. *Customer service*
3. *Organizational image*

Product Value Measures

In this research, the elements of product value consist of the items noted below.

- Provides a Good Value
- Good Installation Services
- Too Expensive

[4] Respondents were asked to indicate on a scale of "1" to "9" (where "9" represents "describes exactly" and "1" represents "does not describe at all") how well each statement in the battery describes each of the industries surveyed.

In general, electric providers are viewed very well by small and medium businesses in the product value dimension. The comparative ratings illustrate that only accounting services are perceived to be a better value than electricity while all purchases other than local phone service are identified as less expensive. Despite the fact that electric service is viewed as expensive relative to the purchases considered, it is still generally viewed as a good value.

Figures 3-1 – 3-3 illustrate the relative ratings between electric and the other providers on each of the Product Value attribute measures. These figures provide ratings of all service providers benchmarked to the ratings of electric service providers. If the rating for the service providers in an industry is higher than the service providers in the electric industry, the bar will rise from the axis. Conversely, if the rating for the service providers in an industry is lower than the rating for the service providers in the electric utility industry, the bar will go down from the axis. (Please refer to Appendix A for a complete set of data tables for each of these measures.)

As Figure 3-1 illustrates, electric service providers are generally well regarded for their good value. In 1998, electric service providers receive a mean rating of 6.14 for providing a "good value." This represents a slight increase from last year where electric providers received a mean rating of 5.96.

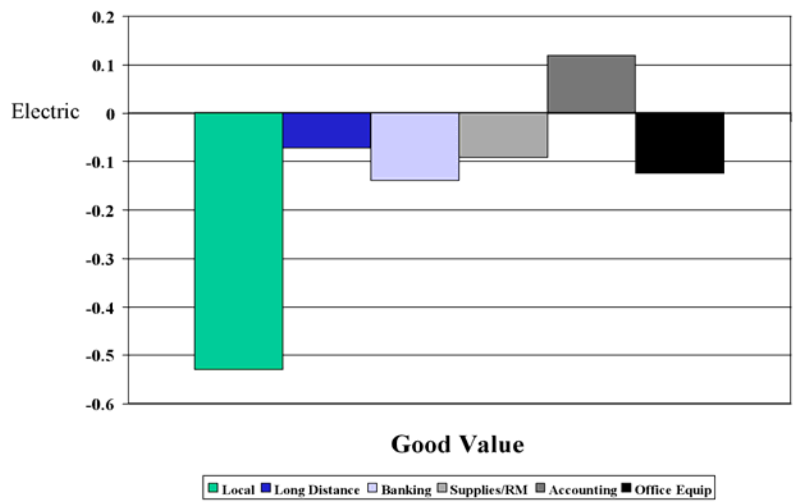

Figure 3-1
Comparative Purchase Attitudes: Good Value

Source: BusinessWave™, PNR and Associates & EPRI, 1998

When looking at the second attribute, Good Installation Services, it can be seen that among all purchases, electric providers are seen as performing the best. Figure 3-2 illustrates this observation. In 1998, electric providers received a mean rating of 6.78 for providing "good installation service." This is a slight drop from last year, when electric providers received a mean rating of 7.10.

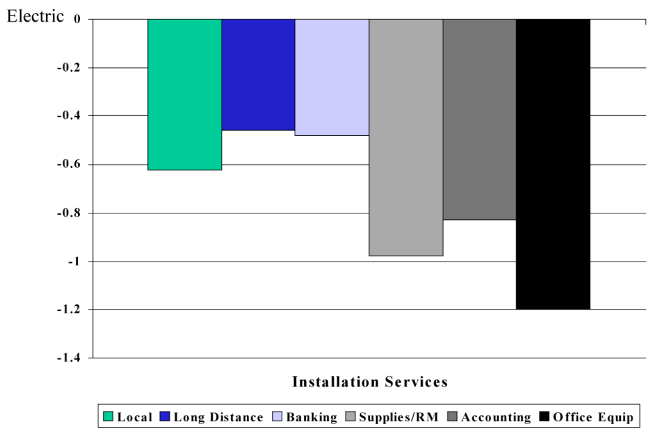

Figure 3-2
Comparative Purchase Attitudes: Good Installation Services

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Finally, as shown in Figure 3-3, electric service providers are not seen as the least expensive of purchases business customers make. As has been noted, despite this observation, businesses still view electrics to provide superior value. In 1998, electric providers received a mean rating of 5.89 for being "too expensive." The current rating represents a slight increase in perception from last year when they received a mean rating of 6.24. A lower score for this negative attribute represents a more positive rating.

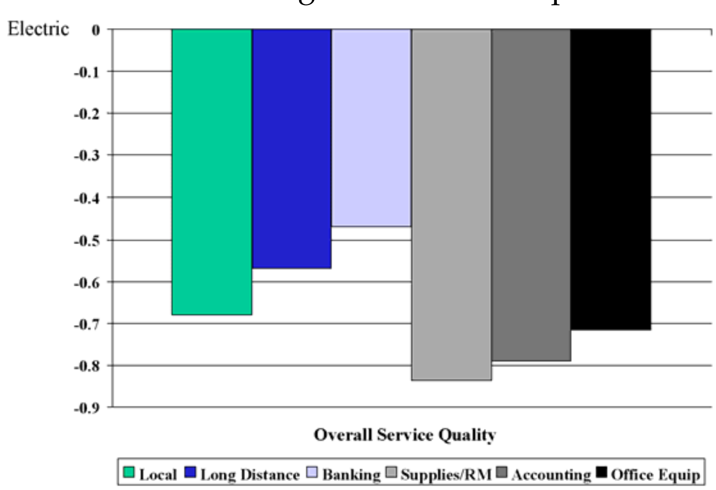

Figure 3-3
Comparative Purchase Attitudes: Too Expensive

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Summary, Product Value: 1997 to 1998

These attributes were also measured in 1997 and therefore provide an opportunity to examine changes from last year to the present.[5] Ratings on most of these attributes have declined slightly over the past year for electric, local phone, and long distance. (Please refer to Appendix A for a complete set of data tables for each of these measures.) The decline in electric ratings may be due to number of factors but most likely are affected by the increased knowledge business customers have of the electric market place with deregulation being increasingly discussed. In addition, business customers are increasingly more experienced with choices the market provides at large and also directly with long distance service. These decreases comport with findings about businesses in various other qualitative research settings as well as with those observed in residential consumer research.

Customer Service Measures

Customer service perceptions are noted in the popular press as driving many provider and product choices by consumers and businesses. For this research, customer service has the following elements:

- Makes Customer Satisfaction a Priority
- Responsive to Problems
- Difficult to Deal With
- Overall Good Quality Service

As with Product Value, the electric providers fare well comparatively speaking to other providers. However, electric providers fall short of making customer satisfaction a priority in the eyes of consumers. Electric providers are surpassed by banking, accountants, office suppliers, and, to a lesser extent, suppliers of raw materials in making customer satisfaction a priority. Of the utility providers rated, electric is perceived as giving more priority to customer satisfaction, exceeding local phone and long distance ratings for this attribute.

Finally, of the various purchases businesses make, only office equipment providers are seen as being less difficult to deal with than electrics. Therefore, relative to the purchases tested, popularly speaking, the electric industry is viewed favorably. It is

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[5] All attributes composing the product value, customer service, and organizational image dimensions were rated on a 1 to 9 scale where 1 means “does not describe at all” and 9 means “describes exactly (the way you feel about the company).”

important to keep one's eye on the ball with this element however – suppliers such as Federal Express have set higher expectations for this attitudinal element. To the extent that other electric providers provide a more complete customer service alternative, there could be significant movement of customers to those options.

The following figures, 3-4 – 3-7, illustrate the relative ratings between electric and the other providers on customer service attribute measures. If the rating for the service providers in an industry is higher than providers in the electric industry, the bar will rise from the axis. Conversely, if the rating for the service providers in an industry is lower than the rating for the service providers in the electric utility industry, the bar will go down from the axis. (Please refer to Appendix A for a complete set of data tables for each of these measures.)

As can be seen in Figure 3-4, electric providers are generally rated as only focusing more on customer satisfaction than the other utility type providers assessed in this analysis – local phone providers and long distance providers. Electric providers received a mean rating of 5.71 for making "customer satisfaction a priority." Last year they received a mean rating of 6.21 indicating a slight decline in rating.

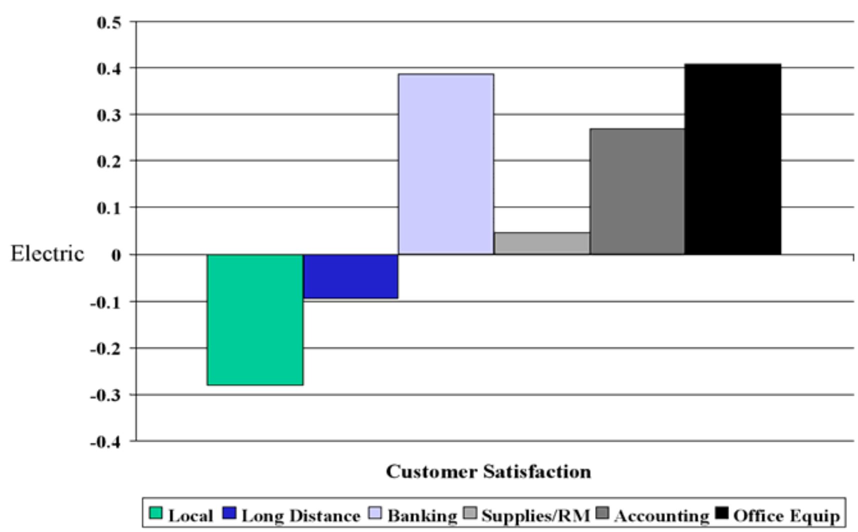

Figure 3-4
Comparative Purchase Attitudes: Makes Customer Satisfaction a Priority

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Electric providers surpass all providers in responsiveness to problems and providing overall good service quality. Figure 3-5 illustrates this. Electric providers received a mean rating of 6.83 compared to last year's rating of 7.09 for responsiveness to problems.

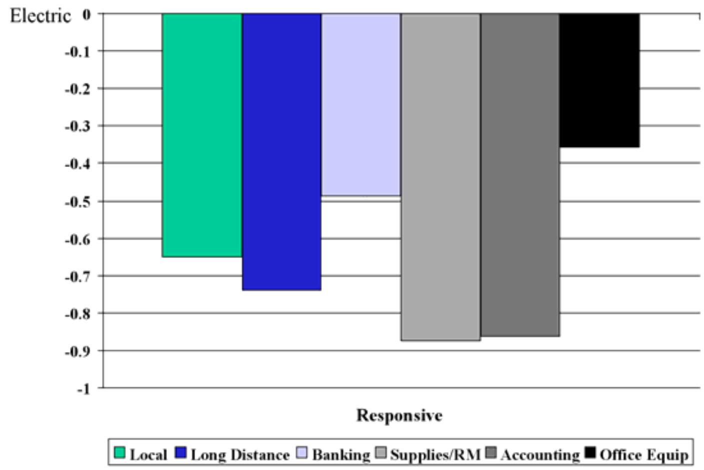

Figure 3-5
Comparative Purchase Attitudes: Responsive to Problems

Source: BusinessWave™, PNR and Associates & EPRI, 1998

As illustrated in Figure 3-6, relative to the other providers, electric is rated as not being difficult to deal with (except for office supply companies). The mean rating of 3.70 for being "difficult to deal with" is slightly better than last year's rating of 3.87 for electric providers.

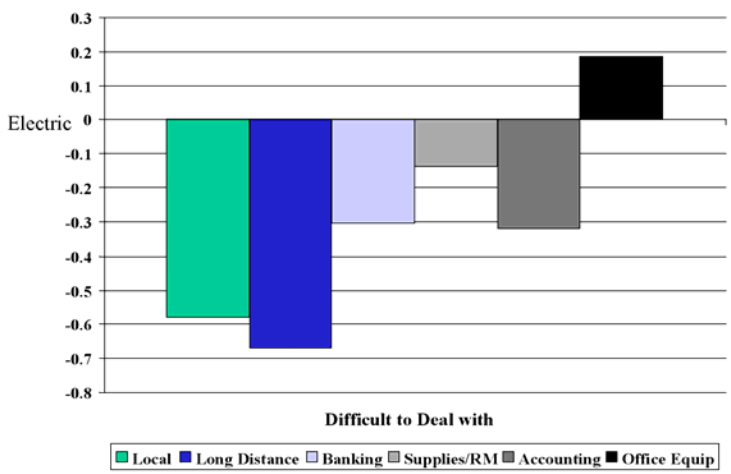

Figure 3-6
Comparative Purchase Attitudes: Difficult to Deal With

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Finally, Figure 3-7 illustrates that of the purchases considered, electricity providers rate the best for Overall Good Quality Service. Electric providers received a mean rating of 7.08 for “overall good service quality.” This is a slight decrease from last year, when electric providers received a mean rating of 7.12.

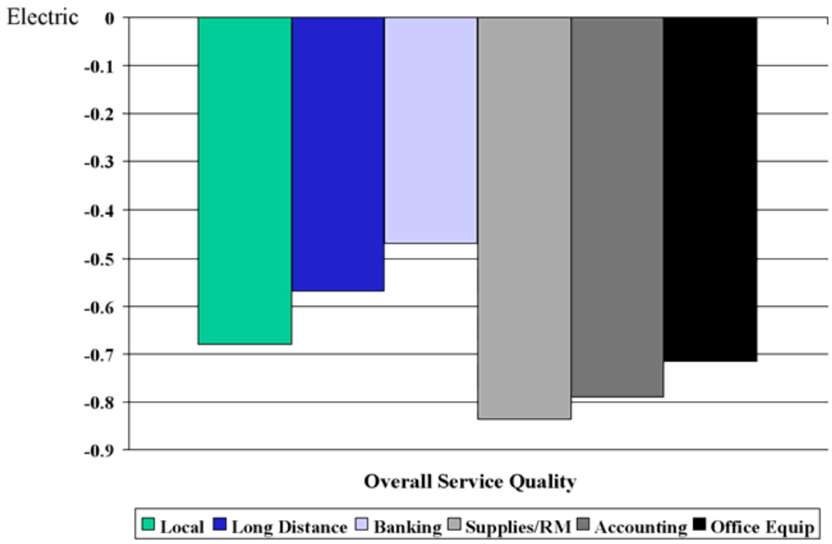

Figure 3-7
Comparative Purchase Attitudes: Overall Good Quality Service

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Summary, Customer Service: 1997 to 1998

These attributes were also measured in 1997 and therefore provide an opportunity to examine changes from last year to the present.[6] Ratings on most of these attributes have, similar to product values, declined slightly over the past year for electric, local phone, and long distance. (Please refer to Appendix A for a complete set of data tables for each of these measures.)

[6] All attributes composing the product value, customer service, and organizational image dimensions were rated on a 1 to 9 scale where 1 means “does not describe at all” and 9 means “describes exactly (the way you feel about the company).”

Organizational Image Measures

Perceptions of the organization's image are derived from customers' descriptions of the providers on the following attributes. As has been observed in past UEM research, utilities are generally not seen as having an image or have a neutral one. Among the measures featured in this research, electric providers fare well with only office equipment and raw materials performing better in two out of three measures – trustworthy and big & bureaucratic. Electric providers are perceived better than both local and long distance phone providers in all organizational image attitudes by small and medium businesses.

For this research, organizational image consist of the following elements:

- Trustworthy
- Too Big and Bureaucratic
- Concerned With Environment

The following figures 3-8 - 3-10 illustrate the relative ratings between electric and the other providers on this set of organizational image measures and shows ratings of all service providers benchmarked to the ratings of electric service providers. If the rating for the service providers in an industry is higher than providers in the electric industry, the bar will rise from the axis. Conversely, if the rating for the service providers in an industry is lower than the rating for the service providers in the electric utility industry, the bar will go down from the axis. (Please refer to Appendix A for a complete set of data tables for each of these measures).

As can be seen in Figure 3-8, banks and office supply companies are considered more trustworthy than electric. However, electric is seen as more trustworthy than local phone, long distance, supply companies, and accountants. Electric service providers received a mean rating of 6.51 for being "trustworthy." There was a slight decline is this rating from last year; electric providers received a mean rating of 6.70 in 1997.

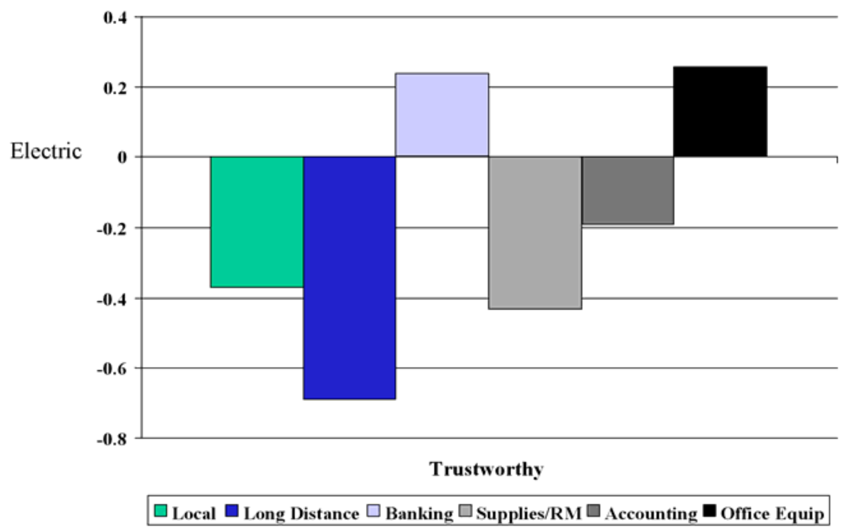

Figure 3-8
Comparative Purchase Attitudes: Trustworthy

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Electric is comparable to local phone and long distance for its perception of being too big and bureaucratic, measuring close to long distance and slightly better than local phone. The other industries which have been competitive are not seen as big or bureaucratic. Electric providers' mean rating for being "too big and bureaucratic" of 5.77 is slightly better this year than last year's rating of 5.83.

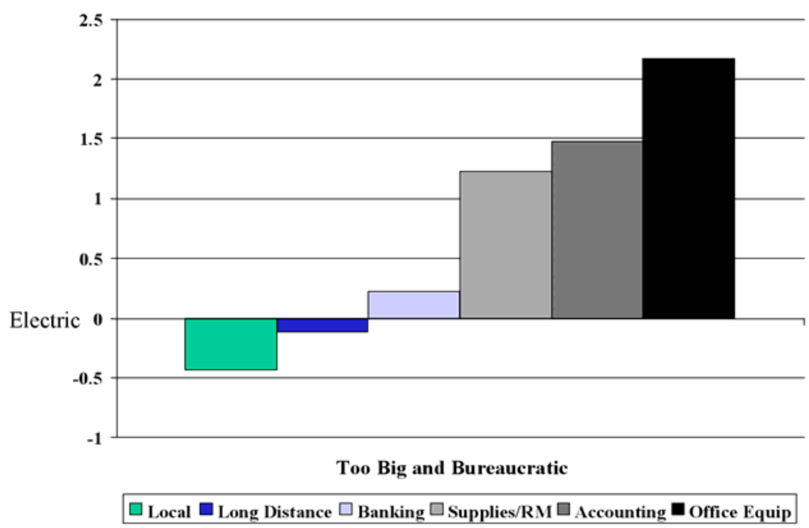

Figure 3-9
Comparative Purchase Attitudes: Big and Bureaucratic

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Relative to other providers, electric is seen as more environmentally conscious. Electric providers mean rating of 5.55 has fallen slightly from last year when they received a mean rating of 5.93 for being “concerned with the environment.”

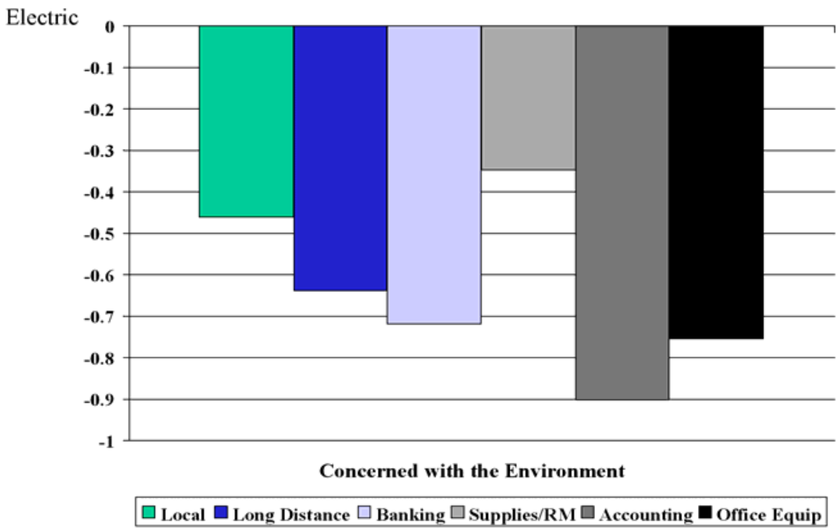

Figure 3-10
Comparative Purchase Attitudes: Concerned With the Environment

Source: BusinessWave™, PNR and Associates & EPRI, 1998

Summary, Organizational Image: 1997 to 1998

These attributes were also measured in 1997 and therefore provide an opportunity to examine changes from last year to the present.[7] Ratings on most of these attributes have, similar to product values and customer service measures, declined slightly over the past year for electric, local phone, and long distance. (Please refer to Appendix A for a complete set of data tables for each of these measures.)

[7] All attributes composing the product value, customer service, and organizational image dimensions were rated on a 1 to 9 scale where 1 means “does not describe at all” and 9 means “describes exactly (the way you feel about the company).”

4

OVERALL SERVICE PROVIDER RATINGS

The above sections provide insight into how customers view electric and other providers along the specific attributes composing *product value*, *customer service*, and *organizational image*. In order to develop a further understanding of how electric service providers compare to other service providers, the *overall rating* of the providers can be explored.

As can be seen in Figure 4-1, electric providers have significantly higher overall ratings than all of the other providers except for office suppliers. Electric suppliers received a mean overall rating of 6.63 in 1998. This is a slight decrease from 1997 when they received a mean rating of 6.82. (Appendix A provides a tabulation of these ratings for electric, local, and long distance phone service.)

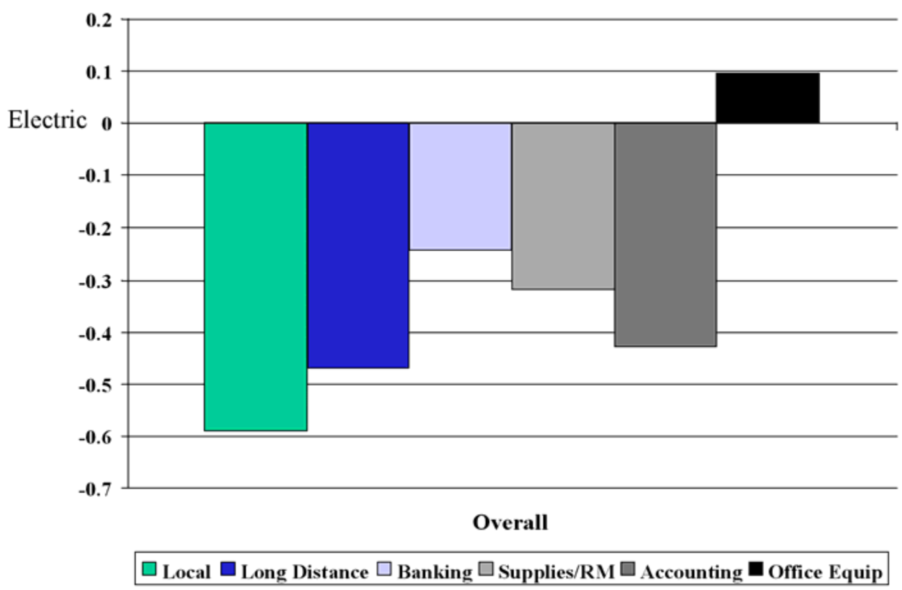

Figure 4-1
Comparative Purchase Attitudes: Overall Rating

Source: BusinessWave™, PNR and Associates & EPRI, 1998

5

EXPLAINING THE OVERALL RATING FOR ELECTRIC SERVICE PROVIDERS

In order to create a picture of the factors contributing to the overall rating of the electric provider, a model was developed. Various image attributes were incorporated into the model to determine the extent to which particular attributes were correlated with the overall rating. The model explained 68% of the variance.

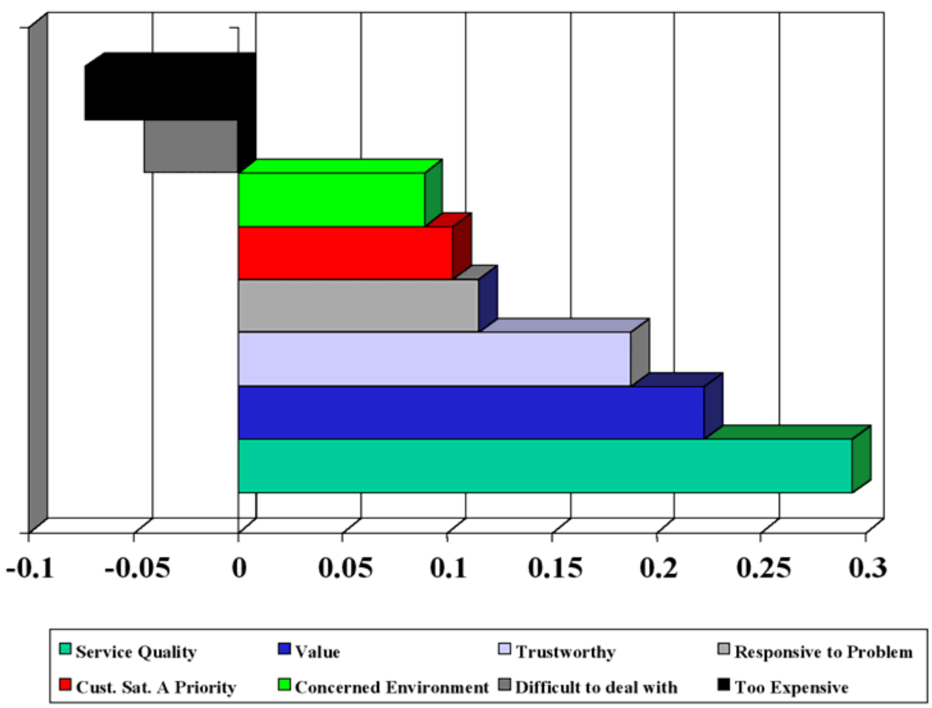

Figure 5-1
Electric Utility Model Beta Weights: Overall Perceived Value

Source: BusinessWave™, PNR and Associates & EPRI, 1998

As seen in Figure 5-1, six of the eight attributes exert a positive influence on the overall rating, while the remaining two exert a negative influence. The attributes associated with positive overall ratings are, in order of influence:

- service quality,
- good value,
- trustworthiness,
- responsiveness to service problems,
- making customer satisfaction a priority, and
- concerned about the environment.

Consumers' perceptions of the provider being too expensive and difficult to deal with contribute to negative overall ratings.

A

Table A-1
Attribute Means for Various Providers

	Electric Company	Local Phone	Long Distance	Banking Services	Office Supplies	Accounting Services	Raw Materials
ATTRIBUTE							
Product Value Attributes							
Provides a good value	6.14	5.62	6.07	5.94	6.15	6.08	6.01
Good installation services	6.78	6.16	6.32	6.18	5.81	5.67	5.86
Too expensive	5.89	6.40	5.73	5.60	5.84	5.39	5.37
Customer Service Attributes							
Customer satisfaction a priority	5.71	5.43	5.62	6.01	5.83	6.33	5.80
Responsive to problems	6.83	6.17	6.09	6.28	5.78	6.55	5.98
Difficult to deal with	3.70	4.26	4.35	4.01	4.04	3.50	3.90
Overall good quality service	7.08	6.38	6.52	6.54	6.10	6.46	6.29
Organizational Attributes							
Is trustworthy	6.51	6.14	5.84	6.68	6.13	6.88	6.07
Too big and bureaucratic	5.77	6.20	5.91	5.61	4.61	3.68	4.51
Concerned with environment	5.55	5.10	4.90	4.72	4.59	4.97	5.12
OVERALL	**6.63**	**6.04**	**6.17**	**6.36**	**6.04**	**6.79**	**6.27**

Table A-2
Mean Attribute Ratings for Electric, Local Phone, and Long Distance from 1997 and 1998

	Electric		**Local Phone**		**Long Distance**	
	1997	**1998**	**1997**	**1998**	**1997**	**1998**
ATTRIBUTE						
Product Value Attributes						
Provides a good value	5.96	6.14	6.05	5.62	6.75	6.07
Good installation services	7.10	6.78	6.66	6.16	6.96	6.32
Too expensive	6.24	5.89	5.97	6.40	5.11	5.73
Customer Service Attributes						
Customer satisfaction a priority	6.21	5.71	6.10	5.43	6.50	5.62
Responsive to problems	7.09	6.83	6.55	6.17	6.90	6.09
Difficult to deal with	3.87	3.70	3.72	4.26	3.64	4.35
Overall good quality service	7.12	7.08	7.72	6.38	7.10	6.52
Organizational Attributes						
Is trustworthy	6.70	6.51	6.42	6.14	6.73	5.84
Too big and bureaucratic	5.83	5.77	5.63	6.20	5.32	5.91
Concerned with environment	5.93	5.55	5.45	5.10	5.38	4.90
OVERALL	6.82	6.63	6.60	6.04	6.90	6.17

B

METHODOLOGY

Members of the BusinessWave™ Panel can formally be described as businesses under $10 million in annual sales which operate as independent entities at their business premise." Chains, franchises and multi-point locations are excluded from the panel since key decision makers are not on-site (Previous studies have shown that decision making by chains and franchises occurs off-premises at regional and national locations.) Survey participants were selected from a large random sample of Dun & Bradstreet's business files. Survey data has been augmented from Dun & Bradstreet's files, which provide basic information on firm SIC code, number of employees, revenues and business form (partnership, proprietorship, corporation) as well as a number of other data elements. The panel closely approximates national distributions by revenues, SIC code and geographic locations and survey results are weighted to accurately reflect national norms and distributions. In 1998, for this report, approximately 900 businesses responded to this survey. An additional 300, to total 1,200 respondents, will be added and results updated in early 1999.

Use of a panel survey offers three significant benefits:

- Extensive firmographic information is available on panel members.
- Panel surveys typically result in higher response rates than non-panel surveys.
- Panel Members characteristically can be predetermined and used for panel recruitment purposes.

C

BUSINESS OMNIBUS SURVEY INSTRUMENT

Purchases tested were completed in rotations. Purchases tested include:

Electricity

Long Distance Service

Local Phone Service

Banking

Office Supplies

Accounting Service

Raw Materials (goods or materials that are used up as major business functions are completed)

1. Each pair of words below describes a feeling dimension. Some of the pairs may seem unusual, but you may generally feel more one way than the other. For each pair, put an "X" to show how you feel about each product. For example, if you feel somewhat strongly that your Cable TV service is costly, you might mark as follows:

Cable TV	Costly	☐	☐	☒	☐	☐	☐	☐	☐	☐	☐	Inexpensive

Electric Power	Product	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Service
	Taken for granted	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Thought about
	Reliable	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Inconsistent
	Optional	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Necessary
	Satisfies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Dissatisfies
	Costly	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Inexpensive
	Have strong provider preference	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Have no provider preference
	Excellent value	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Poor value
	Easily found	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Unavailable
Banking	Product	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Service
	Taken for granted	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Thought about
	Reliable	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Inconsistent
	Optional	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Necessary
	Satisfies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Dissatisfies
	Costly	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Inexpensive
	Have strong provider preference	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Have no provider preference
	Excellent value	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Poor value
	Easily found	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Unavailable
Supplies or Raw Materials: Goods or materials that you "use up" as you perform the major functions of your company	Product	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Service
	Taken for granted	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Thought about
	Reliable	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Inconsistent
	Optional	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Necessary
	Satisfies	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Dissatisfies
	Costly	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Inexpensive
	Have strong provider preference	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Have no provider preference
	Excellent value	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Poor value
	Easily found	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	Unavailable

2. Please think about the companies providing services to you, such as your electric company, local and long distance telephone companies. Below is a grid to use for rating your companies. On a scale from 1 to 9 where "9" means "Describes exactly (the way you feel about the company)" and "1" means "Does not describe at all," please rate each of your providers for each attribute. If you don't have a particular provider, leave that column blank.

Describes Exactly / Does not describe At all 9 8 7 6 5 4 3 2 1	Electric	Local Telephone	Long Distance	Banking	Supplies or Raw Materials
Provides a good value					
Good installation services / start-up					
Good overall service quality					
Is responsive to problems					
Is difficult to deal with					
Is too expensive					
Makes customer satisfaction a priority….					
Is trustworthy					
Is too big and bureacratic					
Is concerned about the environment					

3. On a scale from 1 to 9 where "9" means "Excellent" and "1" means "Extremely Poor," please rate each of your providers OVERALL. Again, if you don't have a particular provider, please leave it blank.

Excellent / Extremely Poor 9 8 7 6 5 4 3 2 1	Electric	Local Telephone	Long Distance	Banking	Supplies or Raw Materials
Overall rating					

4. Please think about each item in relation to the providers below. On a scale from 1 to 9 where "9" means "Describes exactly (the way you feel about the company) and "1" means "Does not describe at all," please rate each of your providers for each statement. If you don't have a particular provider, leave that column blank.

Describes Exactly / Does not describe At all 9 8 7 6 5 4 3 2 1	Electric	Local Phone	Long Distance	Banking	Supplies or Raw Materials
The idea of purchasing this item through a prepaid plan is appealing					
I prefer to do business with a local company					
I prefer to do business with a large national company					
A company's geographic serving area does not affect the service they provide					
The smaller the focus of the company, the better their performance					
Having a national customer base is important to my company					
Companies with more of a national/international focus tend to be "cutting edge"					
Less problems arise when the company has a smaller community focus					
Service problems seem more prevalent in sparsely populated areas					
This item is important for us to meet our goals					
Our quality is directly related to this item					
This item is necessary to achieve our revenue goals					
Items in this product class are mostly alike					
I have preferences for selecting a brand name in this product group					
I like to get help when selecting this product					
I understand the features well enough to evaluate the providers					
Learning about other providers of this item does not interest me					
This item can be bought with a limited amount of information					
It does not matter to me how I pay for this item					
I would prefer the amount for this item be directly withdrawn from my banking account					
I would be interested in working out a payment plan for this item					
I don't like to think that my supplier is ordinary					
It makes sense to compare products when making this purchase					
I have little or no interest in shopping for this product					

I would spend a significant amount of time thinking about the item before purchasing it					
It does not matter to me where I buy this					
I'd like to have a wide variety of choices when I buy this product					
I like my provider to tailor offerings to my needs					
I like personal interactions with the staff of my provider					
I like to develop a personal relationship with the staff of my provider					

5. Some electric suppliers are offering bundled packages of services. These bundled packages may include providing you natural gas, phone service, and access to the Internet; contracts for maintenance of electric equipment, security systems, and building cleaning; and financing of electrical equipment. Please rate your intention to switch providers if offered the following bundle packages on a scale from 1 to 9, where "9" means "Definitely would switch" and "1" means "Definitely would not switch."

Definitely would switch — Definitely would not switch 9 8 7 6 5 4 3 2 1	Rating
Financing of electrical equipment; contracts for maintenance of electrical equipment and security; and providing Internet access	
Providing natural gas and Internet access; and contracts for maintenance and building cleaning	
Providing phone service; financing of electrical equipment; and contracts for maintenance and building cleaning	
Providing natural gas and phone service; and contracts for maintenance and security	
Providing phone service and Internet access	
Providing natural gas; and financing of electrical equipment	
Providing natural gas, phone service, and Internet access; financing electrical equipment; and contracts for security and building cleaning	
Contracts for security and building cleaning	

6. Listed below are reasons for switching or staying with providers. Spread 100 points across the categories to show how the reasons make up your decision to switch or to stay. For example, if your decision were entirely based on price, alone, write in 100 next to price. Of if it were equally divided between price and performance, write in 50 next to price and 50 next to performance.

Reasons for Switching or Staying With Providers	Electric	Local Phone	Long Distance	Banking	Supplies or Raw Materials

Reasons for Switching or Staying With Providers	Electric	Local Phone	Long Distance	Banking	Supplies or Raw Materials
Convenience – transactions are easier; provider easy to contact; knowing I have to call just one company					
Package – appealing bundles of features					
Price – competitive price; better deal from competitor; lower price; deceptive or unfair pricing					
Performance – quality; responsiveness; service; problem resolution					
Risk – security of knowing provider; general or specific fears about switching					
Innovation – try something new; enjoy being on the cutting edge					
Image – recognized name					
TOTAL (of above)	100	100	100	100	100

7. For the following items, please use a scale from 1 to 9 where "9" means "Extremely loyal (the way you feel about the company) and "1" means "Do not feel at all loyal."

How loyal do you feel toward your:

Electric provider	_____	Local phone company	_____
Long distance company	_____	Supply company	_____
Bank	_____		

8. Listed below are statements about your current providers. Please use the following scale from 1 to 6 where "6" means "Completely Agree" and "1" means "Completely Disagree" to indicate your level of agreement with each statement.

Completely Agree / Completely Disagree 9 8 7 6 5 4 3 2 1	Electric	Local Phone	Long Distance	Banking	Supplies or Raw Materials
I have a good impression of my service provider					
I am aware of what my current service provider has to offer me					
I think that my provider gives me more than just service					
I am willing to identify myself as a customer of my service provider to those with other providers					
I would say that I am more than just a customer to my service provider					
I have a two-way business relationship with my service provider					
I would never favorably identify myself as a customer of my service provider					
My service provider considers the interests and concerns that I and other customers have in common					
I would recommend my service provider to others if they had the choice to make regarding their service provider					
I and other customers like me form a "community of interest" with our service provider					