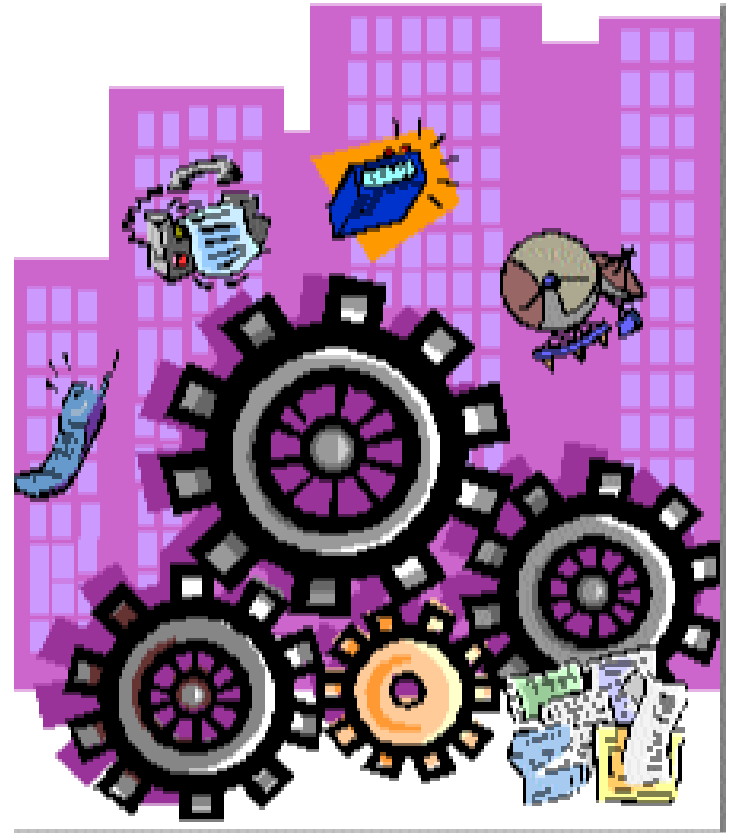




The Value of Friends & Family



Grow Revenue, Increase Efficiency & Raise Customer Satisfaction



What is MCI's Friends & Family®?

- Customers get 20% off the price of long distance calls to other MCI customers who are the customer's calling circle list.
- You only get the discount if the called party is a Friends & Family customer.
- Originally only twelve phone numbers could be on your calling circle. Later it went to twenty.



How does Friends & Family work?

- Plan was based on research showing that a high percentage of long distance calls from any home go to a small list of destinations.
- New customers submit a list of most frequently call numbers. This is the “calling circle”.
- MCI went to work with direct mail and telemarketing to persuade the “calling circle” nominees to join.



Rating Jujitsu

- MCI concocted a rating plan that AT&T could not quickly respond to.
- AT&T depends on regional telephone companies to produce its bills.
- AT&T didn't customize service plans easily.



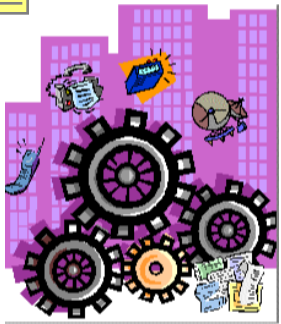
How hard did the competition fall?

- MCI brought out Friends & Family in March 1991
- MCI gained two market share points in their first year of marketing Friends & Family (an estimated 1.2 billion revenues)
- Friends & Family converted an estimated twelve million subscribers (Fortune magazine) from 1991 until 1994.
- For perspective, AT&T went from 90% market share in 1984 to 63% in 1991.



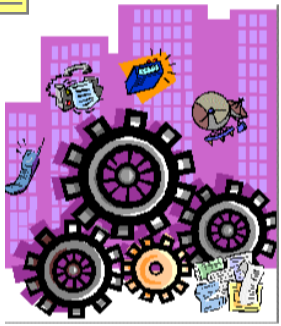
What is Friends & Family?

- Is it:
 - A Pyramid marketing scheme?
 - Modern database marketing?
- James Rosenfield of Direct Marketing says that "it is the first big sign that database marketing has ... reached its initial point of critical mass, the key explosion of database marketing into a universal category"



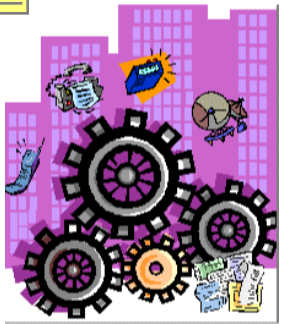
The Size of the Pyramid

- MCI revealed in 1992 that seven million of their twelve million customers were on Friends & Family.
- If each Friends & Family customer tried to convince others to join, they have the world's largest sales force.



Privacy Concerns

- Database marketers often confront privacy complaints.
- “We didn’t know whether or not people would be reluctant to give us the number of friends and family members, but our customers were surprisingly willing to cooperate.”, Carol Herod, VP, MCI
- Customers felt they were helping friends “get better value” for their calling.



AT&T's Response

- AT&T hit back with a TV campaign raising privacy concerns. They used the tag line, "It's just not worth it." to close their message that you shouldn't have to give up your private information to get a discount.
- In February 1993, AT&T unveiled the "i" plan with individualized discounts across all products.
- In December 1993 AT&T vice President Daniel Clark publicly declared MCI "the enemy". MCI expressed delight.



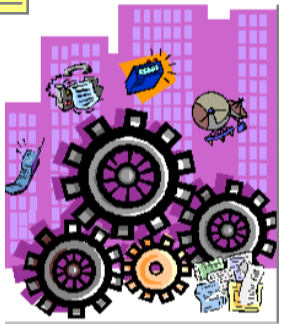
How Well Did It Go?

- Joseph P. Nacchio, AT&T Consumer Long-distance division, took over in the fall of 1993.
- He said, "We're not known for speed -- it took us 22 months to respond to Friends & Family."
- The response was the "i" plan where "i" stood for "individual", but the plan was poorly received.
- It was seen as vague and confusing.



Sprint's Response

- Tom Weighman, Sprint's top marketing executive, said, "It violates a fundamental marketing principle. You don't ask customers to do your job for you."



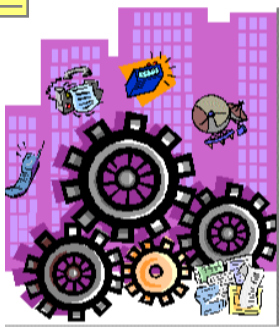
Sprint Reaction

- Sprint reacted in June of 1992 with "The Most" service plan.
- "The Most" gave a 20% discount on calls to any number of other Sprint customer and 20% off calls to the most frequently called number.
- The savings match MCI's, but customers aren't pressured to recruit others.



MCI Product Line Extensions

- MCI extended their product line to add the Friends Across The World brand.
- They struck again with 1-800-COLLECT.
- Then with "Proof Positive" to get small business customers.
- Then "10-321" to gather the calls from "rebel" callers.
- Now they use 5¢ per minute on Sundays.



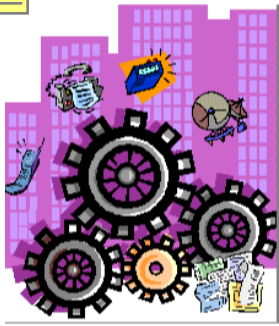
The Technology of Friends & Family

- “It would have taken an extra three months to implement the Friends & Family program if we didn’t have a solid infrastructure in place, which would have cost MCI \$45 million in lost revenue.”
- Ralph Holmes, MCI
- He was referring to their use of Communications Integrator from Covia. They use this middleware to build distributed applications.



Friends & Family Development

- John Gerdelman, MCI senior VP remembers:
 - Late 1990, they discussed how to implement the software “requiring a cavernous database, sophisticated linking within the database, and split-second response times.”
 - “Finally someone said ‘let’s do it on the PC’.
 - “There was silence. Then we said ‘OK.’”



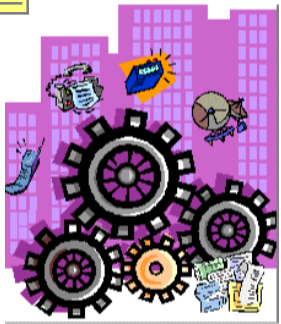
Client/server

- Friends & Family was implemented at 11 customer service centers with a hub of OS/2-based IBM 90 servers. Each server supported 12 CSRs. They used a “paired” database which was a tweaked version fo Microsoft SQL Server.
- “The architecture for Friends & Family also became MCI’s foray into client/server and the foundation on which it based its entire customer-service organization.” - Infoworld - Sept. 1994



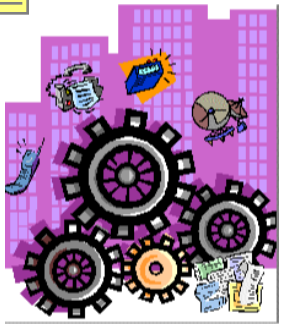
The Psychology of Friends and Family

- “It takes the technique “member get a member”, hooks into the 1990’s longing for contact and connection, wraps it in a database, to create the first infinitely progressive database” - James R. Rosenfeld - Direct Marketing
- “MCI, importantly, is using an emotional impetus to drive the building of a database, then using the database to reinforce the emotional impetus. James R. Rosenfeld - Direct Marketing



The Infinitely Progressive Database

- Each customer supplies a list of up to 20 circle members.
- Each circle member is recruited and also give twenty more names.
- Some of each new circle overlaps previous circles, so there are limits to the affinity referrals you get.



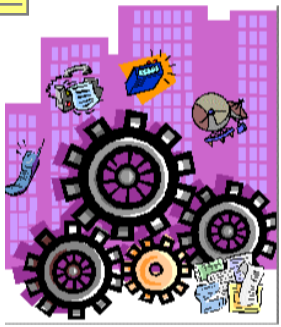
The Limits of Affinity

- In addition to circle overlap, James Rosenfeld - Direct Marketing, points out another limit.
 - Members of a calling circle usually share certain socioeconomic and behavioral characteristics.
 - As you get more than one circle away from the source, the commonality diminishes.
- When does it disappear? Will this create a kind of clustering like geodemographic clustering?
- Will it provide a powerful, but non-intrusive, form of targeting of prospects?



Marketing as Politics?

- MCI was asked why their ads look like political ads.
- Angela Dunlap, MCI VP of Consumer Markets, said, "Choosing a long-distance company is a lot like an election because you pick one, unlike a lot of other products. You can have Coke and Pepsi in your refrigerator at the same time."
(Brandweek, November 1993)



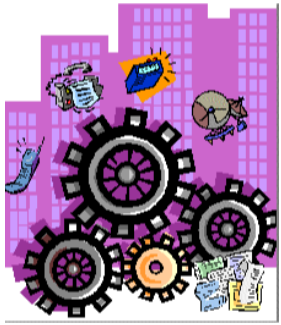
AT&T's Effective Response

- They used win-back checks of up to \$100 to convert customers back from MCI and Sprint.
- In 1994, AT&T took 1.1 million subscribers from MCI.
- AT&T probably couldn't afford to match Friends & Family since they had 62% of the market already and they would just reduce revenues without a significant market share increase.



Service Level LLC Offering

- SL LLC's Ratchet Rating provides lots of rating solutions.
 - Calling Circle Rating (Friends & Family)
 - Association rating
 - Tenure-based rating
 - Ultra-flexible rating plans



Questions?

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