

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Schulman, Ronca & Bucuvalas, Inc.



MARK SCHULMAN is a Founder and President of Schulman, Ronca & Bucuvalas, Inc. (SRBI). His work has spanned both market and public policy research for major corporations, banks and other financial institutions, insurance companies, the media, foundations, public transportation organizations and government. He is a frequent media commentator on polling and elections and has appeared on both CNN and Fox News. He directs all SRBI surveys for *Time* magazine. He specializes in market strategy, segmentation design, elections, and international research. In the financial services area, he has been instrumental in the development of groundbreaking segmentation plans for retail bank marketing. He was closely involved with the development of online banking and has worked extensively in the development of new products, services and strategic approaches in

corporate financial services. He has conducted election and other public policy surveys for various media and academic organizations. Mr. Schulman served as SRBI's Director for three waves of the Fighting Back Survey Evaluation Project for The Robert Wood Johnson Foundation. During the 2004 election season, he served on the ABC News Election Decision Desk. From 1996-2002, he was on the Decision Desk at Voter News Service, an organization owned by the major television networks and the Associated Press, which projected election outcomes. In transportation, Dr. Schulman helped to design and implement one of the most extensive travel mode-choice panel surveys ever conducted to analyze and track key factors in decisions between alternative transportation modes. He has directed many publicly-released surveys. He recently directed two international surveys for the St. Paul Companies on technology risks to major corporations. The public relations campaign for his "The e-Frontier: New Risks to Corporate Risk Management" won a 2002 Silver Anvil Award from the Public Relations Society of America. Mr. Schulman was 2002-2003 President of the American Association for Public Opinion Research (AAPOR). He has also held several other AAPOR posts, including Conference Chair (2000) and Secretary/Treasurer (1997-98). He is the past President of the New York Chapter of AAPOR and was NYAAPOR's Councilor-at-Large. He is also on the Board of the Council of American Survey Research Organizations (CASRO) and a member of the American Marketing Association, European Society for Opinion and Market Research (ESOMAR), and the Financial Communications Society of America. He was awarded the 2004 Achievement Award of the New York Chapter of the American Association for Public Opinion Research. He was recently appointed to the Editorial Board of *Public Opinion Quarterly*, the leading academic journal in its field. Mr. Schulman has taught at several universities, including Rutgers, where he was a Senior Project Director of the Eagleton Institute Poll. He has been an Adjunct Professor at Hunter College, CUNY, Queens College, CUNY, and Baruch College, CUNY. He is a frequent lecturer on survey methods at many colleges and universities and has authored many articles in professional journals. He was a Senior Vice President of Louis Harris and Associates prior to founding SRBI in 1981. Mr. Schulman's graduate degrees were awarded by the University of Wisconsin, Madison (MA) and by Rutgers University (PhD). He is a member (emeritus) of the Board of Visitors and Governors of Washington College, Chestertown, Maryland, where he received his BA, and is on the Board of Governors of the Jazz and Contemporary Music Program at New School University in New York City. He is also serving on the 2004 Advisory Committee of the Columbia University Quantitative Methods in the Social Sciences MA Program.

(ZAW616) TWST: Would you give us a short history of your company and an overview of your expertise?

Mr. Schulman: SRBI was founded in 1981. Our principal objectives at that time were to do in-depth research in public policy analysis and also in areas in which there are regulated industries such as banking and finance, insurance, telecommunications, both on the market research side and on the public policy issues that they face. The company today is fast growing. Our revenues were about \$18 million in 2004, and we also have complete in-house facilities to do every phase of the research process, whether it's in the design of a research, the analysis, the implementation of the research, or the interviewing; we have full in-house capabilities at every phase of the research process to make sure that we deliver our work in a timely way and to ensure quality control.

deliver expertise, and deliver insights that, because of our background and because of other work we've done, gives us competitive advantage. Traditionally, we never felt we had a competitive advantage in consumer products. There are a lot of good old-line consumer research companies out there.

However, we've done some rethinking in the past year and a half. As a result of that rethinking, we decided that we wanted to build what I consider to be the first Market Insights Division for the 21st century. We are not going to do low level usage and awareness kinds of studies that many firms do, but rather we are going to focus on innovative approaches, particularly in integrating the data we collect through surveys with other data as well from the client, particularly customer relationship management data to give us very special insights.

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TWST: Does your expertise span across both government and commercial markets?

Mr. Schulman: Yes. We do both. We found that there is a tremendous overlap, particularly in our ability to use many of the methods that we've developed in market research. We can apply these methods to government research. I think if there is one direction in which public policy research is going, it's to utilize more fully a lot of the methods that we've developed in market research, and there is also cross-fertilization in the other direction as well, so that our firm really does both. Also, in the past year, we have put a particular emphasis on the commercial side of our business and marketing research, on our Marketing Insights Division, and that really is probably our top priority in the next year. SRBI traditionally has not been a consumer products company, that is, doing research in packaged goods. There are many competitors in that area, and we didn't feel that in a particular area such as soapsuds or breakfast cereals that we had any particular expertise that differentiated us.

Here's some background on why we launched our Market Insights Division in 2004. An important component of our business is being in fields where we can differentiate ourselves, where we can

Also we've been developing new data collection methodologies. For example, as a result of a recent acquisition that we made, SRBI (Schulman, Ronca & Bucuvalas) has become a leader in the area of interactive voice response as a method of collecting data, particularly for our fast-food clients who want to evaluate the quality of the services they are providing at their stores, their outlets and their franchisees. We all know that one or two bad experiences at a fast food establishment can really sour someone for many years. There is an increasing emphasis, increased understanding, that to build customer satisfaction and customer loyalty, firms need to have these kinds of customer feedback measures. We are fast becoming a leader in that area, particularly in the use of interactive voice response, that is, recruiting customers at the point of sale to contact us through interactive voice response anytime day or night and provide real time feedback on their experience at that specific outlet or franchisee. Our new digital dashboards provide decision makers with timely data that can quickly turn around a bad service environment.

TWST: Are there any sectors of the government that you specialize in?

Mr. Schulman: There are actually quite a few. We have an entire unit of SRBI dedicated to public policy. First, we do a great

many epidemiological studies, which are studies that are in the health area, looking at background factors that predict or are precursors of various health conditions. These tend to be very large scale surveys. They are often sponsored by divisions of the National Institutes of Health and are often done by academic people as well. For example, a couple of years ago we studied 11 communities which had different rates of cancer to try to determine if there was anything that we could find that would explain why some communities had lower cancer levels, but there are specific kinds of cancer at lower levels than others. So that's one type of study.

York Academy of Medicine, did some of the principal tracking of the deep psychological impacts of 9/11 on people in the New York metropolitan area, and those studies continue. When we talk about the impact of 9/11 and the fatalities from 9/11, sometimes we overlook the fact that these events left deep psychological scars as well, not just on people who were there, who escaped, but also people throughout the metropolitan area and, indeed, throughout the nation. So that one area of study in which we've particularly excelled or specialized is looking at long-term impacts of traumatic events on post-traumatic stress levels.

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Second, we have a major area of study for the Veterans Administration looking at the quality of care that veterans receive in the veterans' hospitals and other veterans' healthcare facilities. Again, this shows a real sensitivity on the part of that agency to providing the best care that they can provide, particularly right now. The demands on the VA healthcare system are enormous. We all know about the fiscal constraints that the VA and other government organizations face. But this is a prime example of a government agency employing the same methods that we've used in market research to provide extra insight into delivery of government services.

Another example: for many years we've been working with, and this may surprise you, the Internal Revenue Service, doing customer satisfaction surveys with customers of the IRS. Now you may ask who is the customer of the IRS? Not surprisingly, we all are. Their customers are taxpayers. This is again another indication of the changing minds on the part of government. This started a long time ago, looking at us not as taxpayers but as customers of the IRS, and I think it is in that spirit that the IRS has been following. So those are some examples on the customer service side.

In addition, we do highly detailed surveys on such issues as the psychological aftermath of 9/11. SRBI, working with the New

Post-traumatic stress disorder within the past 10 or 15 years has been recognized as the major factor influencing behavior of people who've suffered through these traumatic events. These traumatic events can be wartime military service. We did follow-up studies on Vietnam and Gulf War veterans for example. We expect that there are studies being done right now or will be done on those who are serving in Iraq. But these kinds of trauma affect people throughout their lives, and it's very important to understand the magnitude of the impact of post-traumatic stress disorder. We actually started examining post traumatic stress disorder when we conducted surveys with the veterans who served in the Vietnam War zones there, looking at long-term impacts. So that's just a few examples on the kind of public policy work that we do, and all of this work feeds into decision making; it feeds into better government service, feeds into policies that are better tuned to the needs of trauma.

TWST: So your business is very dependent on government spending as far as surveys are concerned. How does that vary from year to year?

Mr. Schulman: There have been a few downturns in the government research market, but by and large, as markets go, it has become pretty recession-proof. No matter which way the economy turns, there is still a tremendous need for these kinds of services and

policy evaluations. In fact when the economy turns down, there is probably, in many cases, more of a need to evaluate public policy and the sharpening and fine-tuning of public policy to serve the ever changing needs of people who get caught in that downturn. So that aspect of our business is, as things go, fairly recession proof.

TWST: From the commercial standpoint, are there some industries in which you have better expertise than others?

Mr. Schulman: Yes. One hallmark of SRBI is that we specialize in only certain industries. We don't try to be all things to all people because it is just not possible. When we walk into a situation, our job is to deliver, to help clients to achieve their business objectives, to become part of their strategic planning team to work on strategy and tactics. We don't feel we can do that adequately unless we have deep expertise in each of those areas, and we can't have expertise in all areas. So in the areas in which we have particular expertise, number one, banking and finance, we work with many of the leading financial institutions on a variety of customer service issues, on marketing issues, and planning issues. We often look at financial service intermediaries — the brokers, the financial advisors — to understand their thinking about certain products because if you are, for example, a mutual fund company, your distribution channel consists of financial advisors, the brokers. We do many surveys looking at specific products or families of funds or families of investment prod-

lines at the Fortune 1000 companies. So again, there is another area.

SRBI's other areas of expertise are media, telecommunications, and health care; I mentioned public policy. In transportation, we are one of the leading providers of the market research to the Metropolitan Transportation Authority of New York (MTA). Again, they are a public agency, but they operate very much like a private commercial company in that they are providing services they need to provide with the best customer service that they can within their resources. They market, they advertise, and we do very much the same kinds of research for our transportation agencies. For example, we helped the Metropolitan Transportation Authority of New York roll out their Metrocard payment system. We recruited 3,000 New York City Transit riders to test the Metrocard for months before the system was rolled out. We do ad and brand tracking as well as customer service surveys for the MTA and Amtrak. We work with the U.S. Department of Transportation to study seat-belt usage. We also do a lot of product development, pricing and branding work with Amtrak.

So that's a flavor of the areas in which we have deep specialization. I mentioned our new thrust, which is in market insights. That's more consumer-product oriented, but it is not traditional consumer product research; rather it's trying to develop new methods and new ways of squeezing insight out of the data that we collect.

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ucts to understand better why some products are doing better than others in the marketplace, and in that case, our best source is financial advisors, the intermediaries. So that's one example.

Now, the other markets in which we have deep expertise include insurance, where we work again with a number of very major, very large commercial property casualty insurers, again, looking at specific market issues, looking at the issues of product development, new product development, why some products have stalled, did not hit their potential in the marketplace, and what are the barriers that they are facing. We often do surveys with agents, with risk managers who are responsible for the purchase of various property casualty insurance

TWST: How is the corporate spending atmosphere for surveys of your type at this point?

Mr. Schulman: At this point it has become healthier than it has been in a number of years. In 2001, that sector of our market (before 9/11) was a bit weak reflecting the recession cutback in corporate spending. It got even weaker after 9/11, but by second quarter of 2002, we started to see an uptick. That uptick has pretty much continued in most of our sectors, but it's not uniform. For example, financial services are very spotty; it's up and down. I think that reflects the issues that are facing the financial services companies right now, the many regulatory issues, and that's true, by the way, of our insur-

ance clients as well. Some of them have run afoul of the regulators, and some of the financial service clients have run afoul of the regulators. So it's not just the overall economy, but specific sectors of our business have had their ups and downs. So it's hard to talk about everything. On the other hand, that's a good reason to be diversified, right? It's a good reason to have one leg in the public policy area, which has been fairly recession proof, and another leg in the commercial area, which sector by sector does have its ups and downs.

One other advantage we have is that SRBI does all of our research in-house. We have major data collection facilities; we have very major software that enables us to do Internet research interactive voice response. We have executive interviewing as a lot of the work that we do is business to business. Again, that's another distinguishing factor that I should add to our list. We have a specialty in business-to-business research, particularly in financial services and insurance. I mentioned, for example, in the insurance area that much

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TWST: How do you distinguish yourself from your competition?

Mr. Schulman: In a number of ways. First, our emphasis is on industry specialization. We are tightly focused on the industries I just mentioned. We don't try to be all things to all people. Our efforts really are focused just in the areas in which we think we have a special edge. Our clients appreciate that because when we address an issue or problem, our job is to solve that problem, to help businesses achieve their objectives; that industry expertise gives us this one distinguishing factor. Every business to be successful has to have its unique selling proposition. What makes it unique? What makes it different than the competitors? Why will clients choose you over your competitors? We think our specialization is a major reason.

Second, we are very open to innovation; we are constantly searching for ways to improve the research process to make it more efficient. Third is our dedication to customer service and being part of our client's team. We have long standing relationships with our clients, and as a result in many cases we feel almost that we are a part of our client, that we are part of the team, and that to us is very important, even though many of the projects that we take, we take on an ad hoc basis, unless we would like to feel that it's part of a continuing research service that we are providing because we understand the client's objectives and where the client needs to go; that gives us a special insight into our clients' problems. So those are probably the major areas.

of our work is focused on risk managers, the people who purchase commercial property, casualty insurance. In banking and finance, a lot of our work is focused on financial intermediaries rather than the end customer. We do end-customer research, but we are one of the few firms that has a heavy emphasis on business-to-business research as opposed to business to consumer. Those are a few of the distinguishing characteristics.

Finally, we are highly visible in the research industry. Our public opinion and election studies for major media put the SRBI name in front of the public and decision makers almost every week. Our public policy studies are widely quoted. They often impact policy-making in Washington and elsewhere.

TWST: What changes are you expecting in your markets as you move ahead?

Mr. Schulman: Let me start by looking at the overall market research industry. We are going to see continued consolidation of firms. There has been, in most industries, continuing merger and acquisition activities. In fact, there is hardly a month that goes by when there isn't a major announcement by someone or another. This is not just in the United States; our industry is global. If you look at the largest market research companies in the world, many of them are headquartered outside the United States, but they have bought into the American market through acquisition. Again, there is a tremendous amount of acquisition activity going on. So it has become a very international industry and one that, even though US is the largest market for market research, there is a surprising number of very major players.

In fact, some of the largest players in the world are non-US companies that have bought into the US market, and market research is being conducted everywhere in the world. China, for example, is one of the growing markets for market research as it is for production and other business tasks as well. India, Europe — it doesn't matter where you turn these days. What started out as a peculiarly American phenomenon in many ways is now a global factor.

There's also today more emphasis on ROI, return on investment. When clients commission research projects they want to know what it will buy them. In other words, a client is investing in research, in consumer insights, in marketing insights, because they expect return on investment, and it behooves us as practitioners in this marketing insight space to be able to inform our clients about what they can expect as a result of the projects that we work on. What does it mean in dollars and cents terms? What new doors would open; what new revenues will it bring in? What insights can we bring that are going to advance the business of our clients? So those are a few of the ways in which our industry is evolving.

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Also, data collection methodologies are evolving. Much more today is done on the Internet and through interactive voice response. Many companies have formed Internet consumer panels which are queried on an on-going basis. We're doing a better job of tying our survey data with other data sources to develop even richer insights.

Finally, much data collection is moving off-shore for cost reasons. All of SRBI's data collection is done in our US interviewing centers. That gives us a quality edge, particularly in our government and university work. However, many consumer research companies, more concerned about data price than quality, have moved their interviewing abroad, particularly to India.

TWST: Are you a profitable company?

Mr. Schulman: Yes. The margins in our industry in general are fine. We're certainly profitable and healthy. We're able to invest back our profits in building new products and services and in new

technologies. We recently purchased another market research firm strictly out of cash flow, with no borrowing.

As an industry, we're probably not as greatly profitable as the leading pure consulting firms. But that's probably because we have higher direct costs than the consultants.

One telltale sign of our industry's profitability is the number of investment firms that are actively seeking to invest in market research companies. It's no secret that many of the private investment firms are seeking to make investments in the major market research firms, but on a very selective basis.

TWST: What would you consider as the strengths and advantages of the management?

Mr. Schulman: We are still privately held, and being privately held, we can sometimes afford to take some risks that maybe other people can't in terms of developing methods. Again, that combined with our profitability means that even though we are a mid-sized company, we do have the resources to compete with some of our larger brethren, number one.

Number two, I think our corporate culture here is very client-oriented. That's a reflection of the partners' philosophy. Our chief end goal is to serve the client. Yes, of course, we are profitable, but our end-goal, which is embedded into our corporate culture, is to help our clients work through their issues to provide insight, to help them achieve their business objectives. In other words, our corporate culture is not just presenting you with some data. That's pretty cut and dry. That's what many of our competitors do. Our goal is not to be a data collection company, but rather to be a marketing insight company. That's deeply embedded in our culture.

TWST: Give us your scenario for your company two to three years down the road.

Mr. Schulman: Actually that's the toughest question you can ask. Our objective is first, certainly, to expand. I think there are many opportunities available to us. We are at a crossroads in terms of trying to decide these issues, where we want to be, and what we want

to do. We have many options open. I don't think it's a secret that we have a number of investors who would like to work with us in growing SRBI, and we are certainly going to be evaluating that option.

Second, we want to grow internationally. The market for our services does not stop at the shores of the Atlantic and the Pacific or the Gulf of Mexico. I mentioned before that the business itself is becoming increasingly international, and we need to be in a position to serve our clients' needs both in the US and globally. We are working very hard right now to develop our global capabilities with alliances, with other major independent firms throughout the world. We have developed a very credible and strong global capability.

Third, we want to be a pioneer in building a marketing insights division that gives our clients an edge in this new century. This means employing new methods, new technologies, integrating data from many sources, not just surveys. We want to be in the "insights" business, not the "survey" business.

Internally, we have in the past few years improved our financial reporting. We put new systems into place over the past few years that provide to us very timely data on a project-by-project basis and overall. In fact, we are just installing new systems to make sure

we are in position to track costs and understand the cost structure of each of our call centers.

Finally, we're a people business. We want to continue to attract the best and the brightest and provide a structure that incents them to excel.

TWST: Thank you.

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