Pricing can solve the capacity challenge

Published in CommsDay, 19 April, 2011

In CommsDay on 14 April, Telstra CTO, Hugh Bradlow was reported as saying "*The biggest challenge we have today as an industry is that the rise in data capacity is not commensurate with the rise of revenues…. if that trend continues we will see a shortage of investment in the infrastructure which makes it all possible*". He is right and we have to adapt our business models to cope.

In the switched world, carrier revenues grew with minutes of use and the incremental cost of traffic was low. In the broadband world carrier revenues tend to be flat at both the wholesale and retail levels. At the same time carriers have to augment capacity to cope with the rapid growth in data but get no extra revenue for that. This is a challenge.

This challenge affects us all. The development of video, cloud computing and all the other applications we all want depends upon continued investment in access networks, back-haul and international capacity. The issue affects both fixed and mobile networks where data growth will accelerate with the deployment of fibre and 4G technologies. Who is going to pay?

Do not count on government. Public investment in backhaul and community access networks like the NBN do not provide a long-term solution. The appetite for budget funding of such activity will diminish. Carriers and ISPs need to find new pricing models to cope.

From next month, AT&T customers on its ADSL and fibre (U-Verse™) will face monthly caps of 150GB and 250GB respectively. In June last year, unlimited $30pm smartphone and iPad plans were replaced with a choice of 2GB and 250MB for $25 and $15 per month respectively. Of course, these moves take the USA towards the current and successful Australian retail model. But is this enough?

For a wholesale-only carrier like NBN Co. the current flat monthly fee pricing model for line-sharing or unbundled local loop clearly does not fit the bill. NBN Co. has developed an innovative and misrepresented pricing model that will see over a third of its revenue generated from the growth in data as its clients increase the size of their aggregation (CVC) links. But, I think it is too timid.

Rather than use a proxy for usage (CVCs), why not go to the heart of the matter and have a GB clip-fee as part of the access pricing arrangement? This gives a direct incentive to NBN Co to augment capacity (including the CVC component as part of the access product) and avoids service providers having to buy large increments of capacity or lower their QOS. Service providers simply pay per port and for traffic. This approach is consistent with current retail pricing too (see my submission to the Senate in April last year; on my site).

Unless carriers link their revenues to the growth in data they will fail to meet the challenge and we shall all suffer from under-investment.

John de Ridder