CommsWire

ECONOMUSE

If you have to be dumb, don't be stupid

Carriers are scared of becoming "dumb pipes". Flat rate pricing is just stupid and the FCC's proposed interpretation of net neutrality is wrong too.

Digitisation is making content independent of carriage. The days when networks were built around applications are gone.

With Internet Protocol (IP) of the digital age, the network can easily deliver voice, data and video – and anything else that can be digitised. That opens the way for "over-the-top" (OTT) provision of services. Which is exactly what is happening.

Netflix or YouTube have direct relationships with end customers over the heads of the carriage providers; who are increasingly complaining of the 'free ride' they have to give the OTT players.

When WhatsApp announced in Barcelona in February that it will offer voice services too, the different comments from two multi-national carriers on the expected impact is instructive:

- The CEO of Millicom, which started in Sweden and operates mobile services under the Tigo brand in Africa and Latin America, begged WhatsApp to "take it easy -70% of our revenues come from voice." Oh dear!
- But the CEO of Tele2, which also started in Sweden and operates mainly in Europe, said "Customers get voice and SMS for free. Sorry Mr WhatsApp, but it's free in the Tele2 world." More on this later.

Hugh Bradlow, Telstra's CTO, once said "the biggest challenge we have today as an industry is that the rise in data is not commensurate with the rise of revenues … if that trend continues, we shall see a shortage of investment in infrastructure which makes it all possible".

The conventional response by carriers to this challenge is to try and shift their game from providing connectivity to providing better service and content.

In Japan, DoCoMo's response last week to "competition with new players offering a wide variety of Internet-based services that transcend the scope of traditional telecommunications businesses" is to – and we quote - "continue to take measures that

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greater enrich the lives of our customers and aim to become a 'partner for a smart life', to be chosen by customers and to receive their patronage for a long period of time." Wow.

Locally, the Australian Financial Review on 23 April reported that iiNet will use a $350m ‘war chest’ to make media and internet acquisitions as part of campaign to avoid becoming a so-called ‘dumb-pipe’ broadband provider. Good luck.

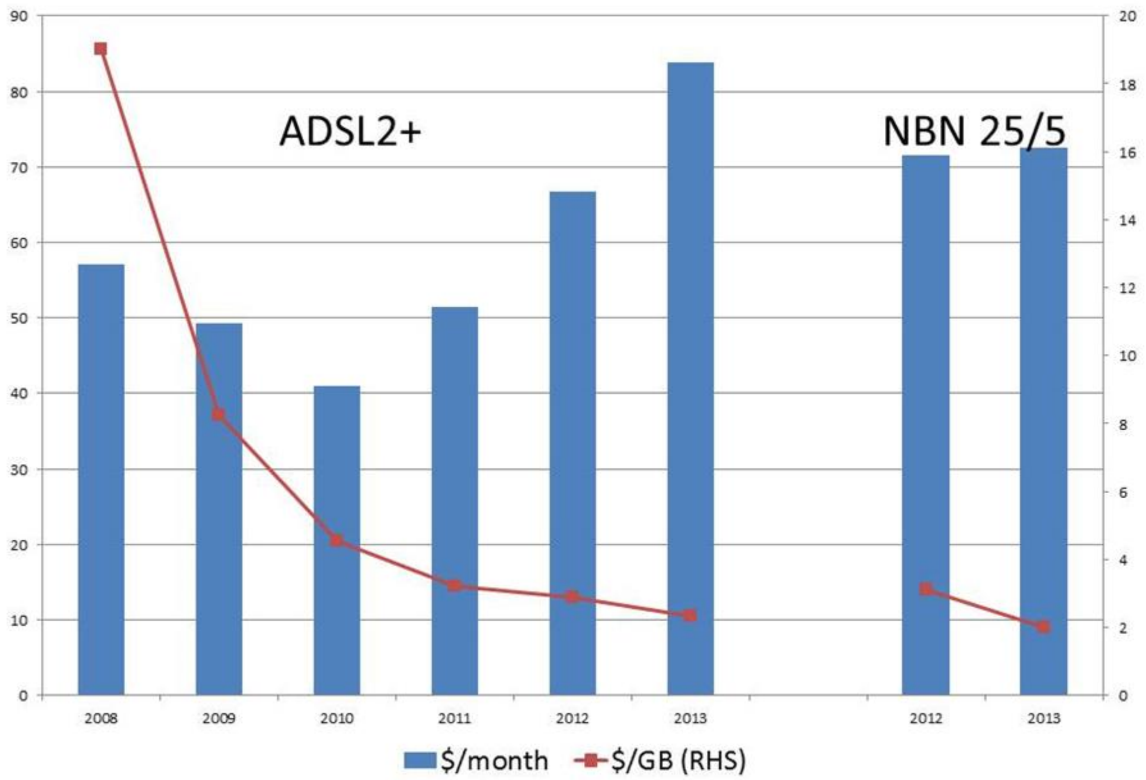
Another approach currently being adopted in the USA is for carriers to charge the OTT players who impose the biggest burdens on their networks. Some like Netflix have agreed.

Having lost a court battle against Verizon to enforce net neutrality (because the appeals court ruled that the FCC didn't have authority over broadband providers which are deemed information service providers), the new Chairman of the FCC is proposing a ‘fast lane’ on the Internet for content providers who pay ISPs more money (*CommsWire,* 28 April 2014).

Wealthy and high traffic sites, such as YouTube and Netflix, will be legally allowed to pay ISPs to deliver their content at higher speeds. That is not a good move for net neutrality.

There is a better way. Even a dumb pipe can be smart about pricing. As Tele2 said in Barcelona: “They [OTT players] make people use my network so I can charge them [users] for data. In many of our countries we charge only for data”. That’s how Tele2 can give its customers free SMS and voice services.

Typical Telstra and Optus broadband pricing



At the wholesale level, flat-rate pricing has been the norm – such as with unbundled local loop and line sharing. However, in the new data driven world, it makes sense to charge for traffic. With access revenues driven by growth in data, the augmentation of networks to accommodate that growth is self-funding; and unit prices should fall.

NBN Co. almost got this right. The December Strategic Review said traffic would account for about 40% of projected access (AVC+CVC) revenues (Exhibit 2-22). However, NBN Co.'s capacity (CVC) approach to charging for data discriminates against smaller ISPs and may foreclose competitive entry. A simpler approach that is more in line with other network utilities is to charge directly for traffic delivered.

At the retail level, customers already pay for data. Because they want budget certainty, they are offered monthly data caps. The effective price per GB in Telstra and Optus broadband plans has been falling over time based on 'typical' monthly price and average download per month (see diagram).

The implicit price per GB may seem low, but the volume of traffic is large and growing - while the number of subscriptions is not growing. In the year to December, the number of fixed broadband subscribers grew less than 5% and the volume of data downloaded by over 50% (ABS Cat 8153.0).

Telecom Retail NZ Chief Executive Chris Quin says "We think the time is now right for Telecom – as New Zealand's biggest broadband provider – to offer a plan that lets customers do everything they want to online without worrying about their bill, and so we're introducing our unlimited broadband plan". Oh dear. This is not a good idea – even if customers like it – because it exacerbates the existing challenge from OTT players.

In a future column, we shall explore the relationship between pricing for speed and pricing for data in more detail. It seems daft, for example, that Comcast customers in the US pay between US$50 and US$90 per month for broadband speeds ranging from 6Mbps to 150Mbps when Netflix is paying Comcast to increase its average download speed from 1.5Mbps to 6.5Mbps in March.

Australia and New Zealand are fortunate that customers already pay for data caps. Carriers in the USA are struggling to wean their customers off unlimited broadband.

Flat rate pricing is not the answer to the biggest challenge we face as an industry. Don't compound the dumb pipe challenge with stupid pricing. The world is changing.

John de Ridder

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