

The MOVE to METERED

By **Martin** Vilaboy

An “all you can eat” buffet never really was the ideal pricing platform for broadband services. Yet during broadband’s land grab years, when there was plenty of unused fiber and always more going into the ground, very simplistic and basic plans that fit all types of customers represented the best way for service providers to gain market share, making “all you can eat” pricing perfect for the circumstances. At the same time, sophisticated rating and billing engines capable of providing granular control over tariff-based consumption were less than prevalent.

All the while, metered or usage-based pricing plans were considered a type of black sheep within the pricing plan family. The attention they received was largely negative, typically associated with the notions of “stifling” growth or the “throttling” of services and assumptions that users would be forced to “pay more.”

Even so, most major service providers are now giving metered billing all kinds of attention – and not only within the mobile broadband space. Now that AT&T officially has placed its monthly 150 GB usage cap on DSL services and a 250 GB cap on U-verse services across its 22-state ter-



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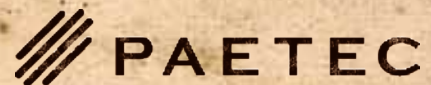
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ritory, along with the bandwidth ceilings that have been initiated by some of the largest cable providers, it's been estimated that more than half of broadband customers in the U.S., or approximately 56 percent of the country's 75 million fixed broadband subscribers, currently are under some form of usage cap, according to a Multichannel News analysis based on Leichtman Research Group's subscriber estimates for the fourth quarter of 2010.

“I don't think carriers want to limit access,” says Flavio Gomes, CEO of IP billing and traffic management provider LogiSense. “After all, it's their bread and butter.”

Some providers of consumer and SOHO services may see this as an opportunity to position their products against AT&T's, Comcast's, Cox's and the like, offering unlimited access as a competitive advantage. That's probably not a bad short-term marketing plan. On the other hand, providers and vendors up and down the value chain would be shortsighted not to consider the inherent and potential advantages and opportunities made available by per-usage programs, if marketed and presented correctly. After all, metered or usage-based services directly address some of the big picture problems facing broadband providers both today and increasingly moving forward. And some of those problems in themselves were created specifically by unlimited pricing models.

Multiple theories have been tossed about as to why AT&T and others are moving to tiered or usage-based pricing. ISPs contest that it's a way to curtail the small minority of heavy users in order to maintain performance levels for the large majority. Others make accusations that it's simply a way to continue to add subscribers and services without investing in networks. Still others see metering as nothing more than an attempt at maximizing profits for a sector with too little competition and little incentive to invest in a better product.

One doesn't have to be a carrier network engineer, however, to understand a certain reality: Internet service providers must prepare for a massive influx of bandwidth-intensive media applications on their networks, both fixed and mobile.

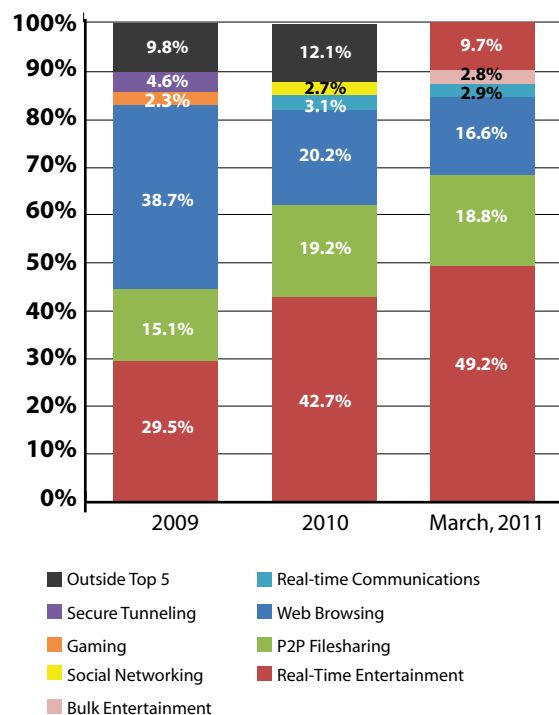
Near the end of last year, as was widely reported, video overtook peer-to-peer to become the largest chunk of global Internet traffic, and since that short

time ago, online video only has gained momentum. If the latest findings from Sandvine are close to correct, Netflix by itself accounts for nearly a third of all peak period downstream traffic. Over the entire day, Netflix video accounts for 22.2 percent of North American data traffic, pushing it past BitTorrent, which accounts for 21.6 percent of traffic and had long been the single largest component of data traffic on broadband networks.

Overall, what Sandvine classifies as “real-time entertainment applications,” which is represented most prominently by video, account for nearly half (49.2 percent) of all bytes traversing the network during peak evening hours. As recently as 2009, this category accounted for only 29.5 percent in the same period, “so the emergence and ultimate dominance of these applications has been a relatively sudden (although not unexpected) phenomenon,” says the Sandvine study.

And this is just seeing the beginning. As much of what is viewed through Netflix, YouTube or multi-person video conferencing today, it's still mostly low quality or

Peak Period Aggregate Traffic Composition (North America, Fixed Access)



Source: Sandvine

standard definition video. As video continues its move to high definition, and then eventually 3D, the impacts on operator's networks will be exponential.

And this isn't a “way down the road” scenario. Sprint, for instance, recently unveiled a 3G-enabled phone, no

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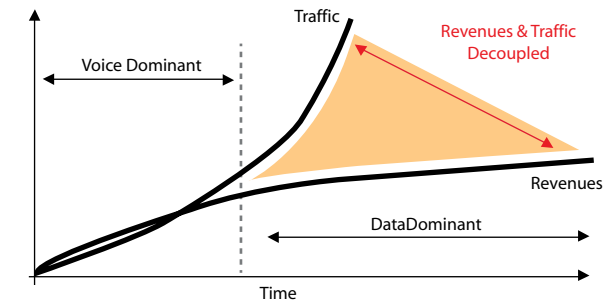


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glasses required, while In-Stat recently projected that the 3D TV set market will grow by 500 percent in 2011. The firm expects 100 percent of all 40-inch and above DTV sets will eventually be 3D-enabled, says Michelle Abraham, In-Stat research director, with 3D TV set households eclipsing 300 million worldwide by 2015.

Mobile Traffic and Revenue



Source: Pyramid Research

Sure, network will get more efficient, codecs will get better and bandwidth only gets cheaper, but consumers are moving fast, and they won't want to wait for labs to catch up. So as viewing shifts from cable TV to Internet video, unlimited plans simply don't put service providers in the best position to earn a return on the investment required to handle video's coming load.

"This isn't about protecting against the data network being swamped with excess usage," Sanford Bernstein senior analyst Craig Moffett recently told *Multichannel News*. "This is about putting the business model on a stable, long-term economic model."

Caps may indeed be effective in curtailing the 2 percent to 5 percent of users who place a disproportionate amount of pull on networks, as carriers contest their intended. But it's only a matter of time before a much more significant percentage of subscribers also is up against the caps. Consider a family of two parents and two teenage children who watch HD Netflix programming throughout each day via a Wii. Say dad also regularly pulls down live Dodgers games on his MLB package, and Johnny's into online games. This isn't exactly the profile of the peer-to-peer video pirates or online spammers/hackers that one usually associates with bandwidth hogs, yet such users already report to coming up against the 250 GB cap in place for AT&T's U-verse service, for example.

It all points to a fatal flaw of "all you can eat" strategies: they place providers in an adversarial relationship with their customers. When it comes to most every other market segment or vertical, the heaviest users of any particular product or service represent the best custom-

ers. They buy the most and the most often. Yet under the current pricing structures for consumer bandwidth, these seemingly "best customers" are labeled as "hogs" and often associated with suspicious activities.

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There's also the issue of a decoupling between traffic growth and revenue growth, particularly on mobile networks. Quite simply, data traffic per user continues to rise rapidly with only incremental increases in revenue per subscriber.

"Unlimited data plans are not sustainable in the long term, as they cap spending while usage continues to increase," say analysts at Pyramid Research.

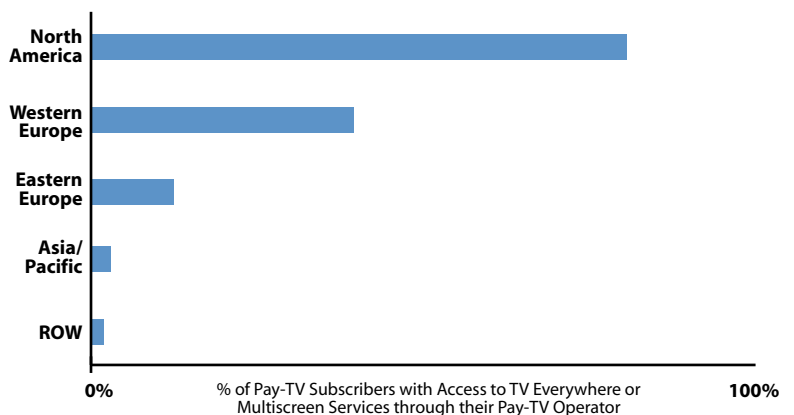
On the other hand, the elimination of unlimited pricing seems to place network operators at odds with providers of the rich content that will fill their pipes. These content and application providers, say proponents of consumption-based billing, are getting a "free ride" on carrier networks. Content companies, meanwhile, argue that usage-based services will stifle adoption and growth and are out of whack with the actual costs of providing bandwidth. Phillip Dampier, leader of consumer watchdog group Stop the Cap, even goes so far as to accuse AT&T of initiating caps primarily to protect its U-verse revenues from over-the-top online video services such as Hulu or Netflix.

Gomes, for his part, sees things somewhat differently, arguing that consumption-based billing actually puts carriers and content companies on the same page.

"An all you can eat model pits the carriers against the content providers, because it incents the carrier to think of the subscriber as their core driver of revenue versus the consumption of content," he says.

If a shift can be made to a more content-centric approach rather than a subscriber-centric approach, "it aligns the interest of the carrier with the interest of the content provider," he says.

Penetration of TV Everywhere Services by July 2011



Source: Parks Associates



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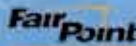
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“The carriers require content to attract subscribers to their network,” he continues. “So as things shift to content being a driver of revenue, it induces a more positive approach to that content and to ways that the content providers and carriers can work together to make sure that content gets delivered efficiently and there is adequate revenue being driven. This then opens the door to more content providers providing content.”

Of course, the move to metered pricing must be handled carefully, particularly on fixed networks, where consumers have been trained to expect unlimited access. And that is where things can get tricky.

“The market will discipline carriers who unfairly bill their customers,” says Gomes.

“Service providers will have to embrace some form of disparity between existing revenue models and the new metered model,” he continues. “They will have to look longer than just quarterly reports.”

Gomes argues that the only way for usage or tiered approaches to gain widespread acceptance is if they are positioned in ways that bury the possibility of limiting access with the potential for cost savings. Those savings could be the result of a subscriber not hitting their allotted amount or their service being personalized to the point where their cost is perfectly in line with their usage – not just the amount of traffic they generate, but tailoring service packages to time of day or type of traffic also are possible.

Admittedly, some revenue cannibalization is likely. Analysis by Yankee Group upon AT&T’s discontinuation of unlimited mobile broadband plans, for example, suggests the carrier would see annual revenue from iPhone users decline by as much as \$2.6 billion if each of the 19 million AT&T iPhone subscribers chose the optimal plan for their usage.

It’s unlikely the actual financial effects will be nearly that high, admits Carl Howe, Yankee Group director, as consumers generally are reluctant to change plans once a service has been budgeted for, while the fear of overage payments will keep others from switching to lesser plans.

“As a result, we estimate that only about 50 percent of smartphone users will switch from their current plans to these more economical plans,” says Howe.

That’s still represents a significant chunk of change, but it’s a risk that AT&T, regardless of its short-term motivations, apparently understands it must make in order to transition toward a more long-term, sustainable model.

For many other contestants up and down the value chain, the move to consumption-based pricing models

offers distinct upsides without the prospect of such revenue declines. Arguably those with the most to gain include billing/OSS and traffic management providers that are able to deliver the real-time rating and charging components, deep packet inspection and bandwidth and policy management capabilities that make usage-based pricing possible while providing the more personalized service offerings that will allow service providers to increase ARPU and loyalty and reduce customer churn.

“The technologies now exist to be able to offer very direct, individualized packages based on user consumption habits,” says Gomes.

Some level of simplicity will be necessary, as well.

“If consumers can’t understand what they’re paying for and how to manage it, they’ll go to a vendor whose terms they can understand,” warns Yankee Group’s Howe.

Access customers, likewise, will not be quick to accept uncertainty in their bills. In other words, bill

Potential Revenue Impact of AT&T’s Move to Tiered Mobile Plans

Old iPhone Data Plan	
19 million subs at \$30/month \$6.7 billion annual subscriber revenue	
New Data Plan	
65% consume 200 MB or less 12.4 million subs at \$15/month	33% consumer 2GB or less 6.3 million subs at \$25/month
\$4.1 billion annual subscriber revenue	
AT&T Revenue Loss	
\$6.7 billion - \$4.1 billion = \$2.6 billion	

Source: Yankee Group

shock, as experienced in the early days of cellular service, will not be tolerated. That seems to suggest an opportunity for developers that can build tools to monitor usage, warn users in a timely manner when thresholds are being approached or provide auditing capabilities that defend against possible billing errors. Much the same can be said for smart-connectivity solutions and network intelligence, as well as the network operators that can deliver on the benefits these metering capabilities can provide.

“With service tiers comes the requirement to monitor, measure, act on and report on traffic, as well as feed all this information to billing systems,” say Yankee researchers.

What can be metered, after all, can be made more efficient. So while it’s hard to predict what a metered world will look like, even though the likelihood of it coming is quite high, it seems pretty clear that the capabilities required to meter service will create competitive advantages for hardware, software and solution providers that can help improve the usage experience while limiting the load on the network. □