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RESEARCH SUMMARY

INNOVATIONS IN MOBILE BROADBAND PRICING

When the DC Circuit Court of Appeals recently struck down the Federal Communications Commission's "net neutrality" rule, advocates of net neutrality lamented that service providers would be free to gouge customers and discourage online competition and innovation.

However, in a study for the Mercatus Center at George Mason University, Boston College Law School professor Daniel A. Lyons shows that the commission's homogenized, one-size-fits-all structure actually left US consumers with fewer choices and prevented broadband providers from experimenting with more innovative pricing models.

To view the study and learn more about the author, see "Innovations in Mobile Broadband Pricing."

BACKGROUND

In various parts of the world, customers are offered a variety of alternatives to the unlimited-Internet model, such as voice-plus plans with social-media functionality. Product differentiation can help drive consumer-enhancing innovation, increasing the ways in which companies compete against one another.

Requiring standardization of a product—as net neutrality does—removes an important plane upon which firms can compete, and actually gives an advantage to large incumbent players against newcomers who are looking for ways to distinguish themselves. Mandating that services providers offer all users access to all online content is costly. This model does not serve the needs of consumers who may not want or need broadband that supports heavy-bandwidth activities such as online gaming and video streaming.

KEY FINDINGS

Innovation within the Confines of Net Neutrality

A number of alternative pricing models in use or under discussion likely do not violate net neutrality since they do not block web access or rival video or voice services.

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- *Sponsored data plan.* Under a new proposal, AT&T would enter into agreements with certain content providers to exempt that content from customers' data limits. By generating revenue from content providers and customers, service providers could maintain their profitability while making the service as affordable as possible to consumers.

- *Tiered usage.* It is common for wireless companies to offer plans that are priced depending on how much of the service a customer uses. Some wireline broadband providers are considering similar models. Net neutrality did not prevent companies from offering varying quantity and quality of service.

Different Pricing Models Used Internationally

Outside the United States, providers offer stripped-down services that help more customers get access to mobile data plans.

- *Free social media promotions.* Turkish cellular provider Turkcell in 2010 began offering access to a basic version of Facebook for free during a promotional period. After that, customers had to pay to access the full Facebook app. This model helped get customers comfortable with paying for mobile data. In the first year of the promotion, Turkcell saw an 820 percent increase in mobile Facebook use. In early 2013, Facebook announced that it had struck similar deals with 18 wireless-service providers in 14 countries.

- *Facebook and Google "Free Zones."* These companies offer more basic versions of their sites to wireless companies in developing countries, particularly those where prepaid, underpowered phones are more common. Net neutrality proponents decry these initiatives as watered-down, "walled garden" experiences that are pale imitations of true Internet access. But among users in the developing world, for whom some connectivity is better than none, the services are popular and have few critics.

- *TELUS VoIP partnership.* TELUS, Canada's third-largest wireless provider, has signed a strategic partnership with Microsoft to promote Skype on many smartphones on its network. The app runs on both Wi-Fi and the wireless network, and although use on the latter incurs data charges, TELUS customers receive unlimited Skype-to-Skype voice calls and instant messages. Partnerships such as these allow consumers another option for services such as voice and text that traditionally have only been available directly through the wireless providers.

CONCLUSION

The Federal Communications Commission can and should intervene to stop anticompetitive practices, including anticompetitive vertical foreclosure. But these determinations should be made on a case-by-case basis and should require a demonstration that the carrier abused market power in a way that actually harmed consumers. A case-by-case approach would allow wireless providers to experiment with new and different Internet business models without risking an unnecessary regulatory response.