

What to charge: Some cautionary words

Andrew Odlyzko

School of Mathematics
and Digital Technology Center
University of Minnesota

odlyzko@umn.edu

<http://www.dtc.umn.edu/~odlyzko>

April 10, 2015

“Smart” telecom pricing

- “Holy Grail” of the industry for hundreds of years
- huge literature
- many disappointments
- is it really going to be different this time?

Reasons it *might NOT* be different this time

- user preferences
- ...
- user preferences (often reflecting user costs that are not taken into account by smart pricing proponents)
- divergence between costs and prices

Some instructive examples:

Verizon spokesperson, cited in *Bloomberg News*, Feb. 26, 2015, on high international roaming rates for data (up to \$20/MB):

It's a complex system; there's lots of different layers that determine rates, like regulatory and tax issues in different countries. Our goal, as always, is to provide the best value.

Some instructive examples (cont'd):

T-Mobile filing with the FCC, May 27, 2014:

- cost of delivering mobile data: \$0.002/MB
- T-Mobile wholesale prices to international carriers:

	price per MB
median	\$0.09
average	0.20
95th percentila	0.40

- retail rates: up to \$20/MB

Wall Street view of main issues in pricing:

P. de Sa et. al, *Bernstein Research* report, June 2014:
With the incremental cost of providing that extra minute of calling, or extra byte of data, close to zero, carriers generally try to price based on what they think they can get away with, constrained by competition, customer inertia (either voluntary or enforced by contracts), regulation (or threats thereof), and their execution capabilities.

Network costs not a significant factor in this view!

Caveats on the road to “smart pricing”

- negative public reaction (possibly leading to regulatory restrictions)
- customer willingness to pay more for simplicity
- flat or semi-flat rates as bundling
- effects on usage and thereby on network effects
- distinction between B2B and B2C and the all-important C2C connectivity, by far the largest source of value

More information, papers, and presentation decks:

<http://www.dtc.umn.edu/~odlyzko/>

or just google or bing “odlyzko”