

Rethinking price models (work in progress)

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Pricing model remains the same from its origin back in the 90's

- Commercial Internet was born in a TDM voice world
- First backbone IP links were installed over expensive and highly lucrative PSTN (voice) E1 or E3 links
- IP Transit (IPT) was not able to reach PSTN services' profitability
- IPT pricing was therefore proportional to the amount of highly profitable network resources reserved to IPT (as opposed to used by IPT)



Potential revenues generated by one international Mad – NY E1 link in 1998

- **30 TDM voice channels:** $1 \text{ €/min} * 60 \text{ min/h} * 24 \text{ h/day} * 30 \text{ days/month} * 30 \text{ channels} = \text{€}1,3\text{MM}$ monthly
- **E1 leased line :** < €50K monthly
- **2Mbps IP port (in Madrid) :** 6000 € monthly

Rough estimates

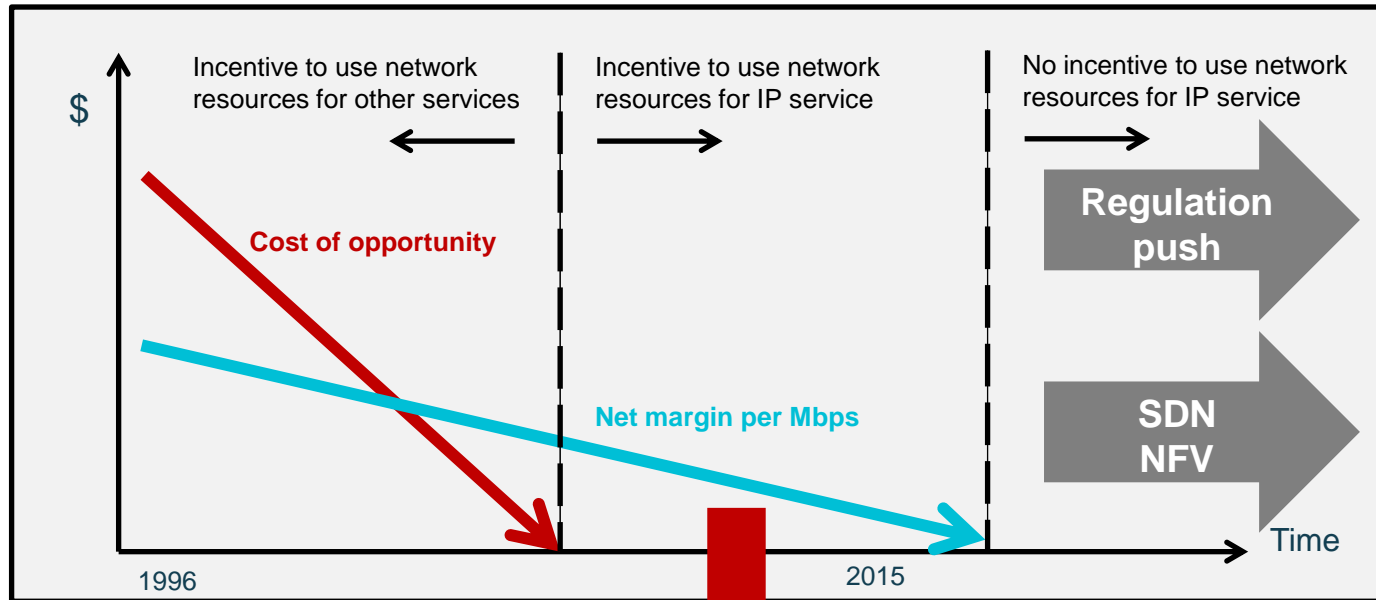
Today, networks have grown dramatically pushing dramatically too network costs down

There is no other more profitable service competing for the use of the network

but...

the globally accepted pricing model remains the same: P95

What's wrong with P95



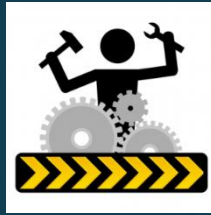
...the more resources you allocate to IP the more you earn... or...
...the higher your costs the higher your revenues...or...
... the less efficient the higher your revenues

The new (traditional) approach

Raw Materials



Factory



Final Product



Waste



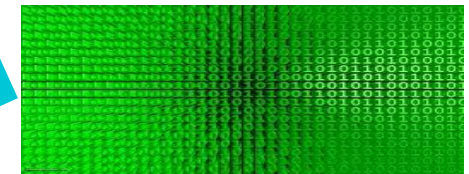
Content



Internet

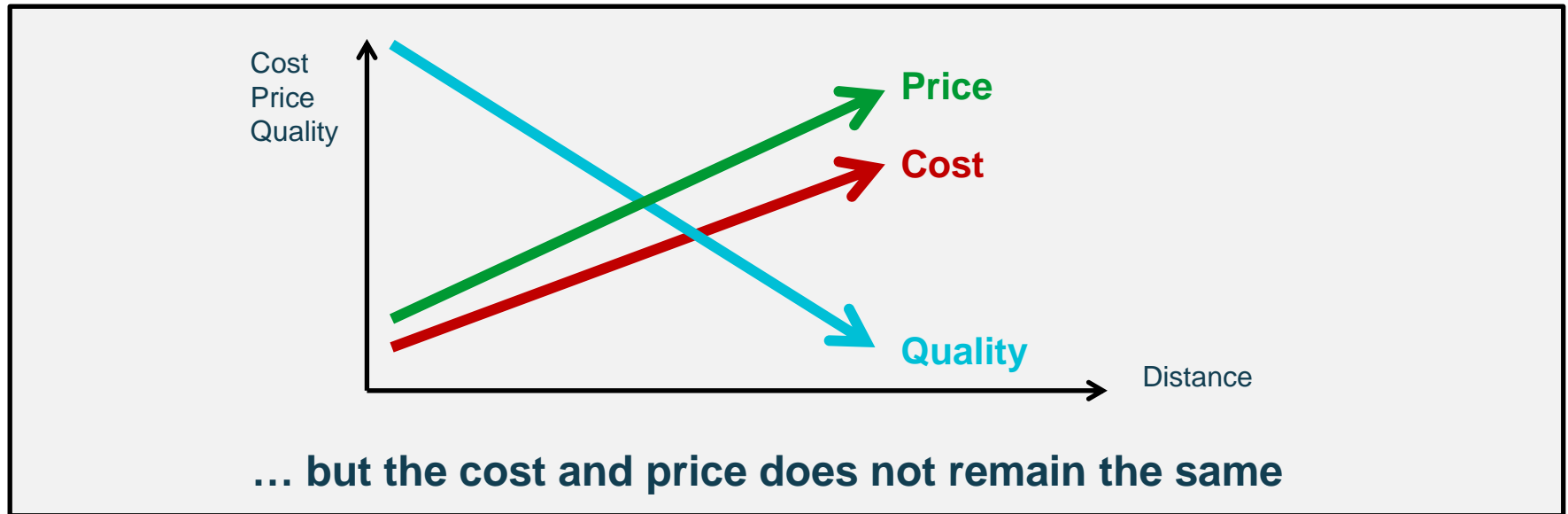
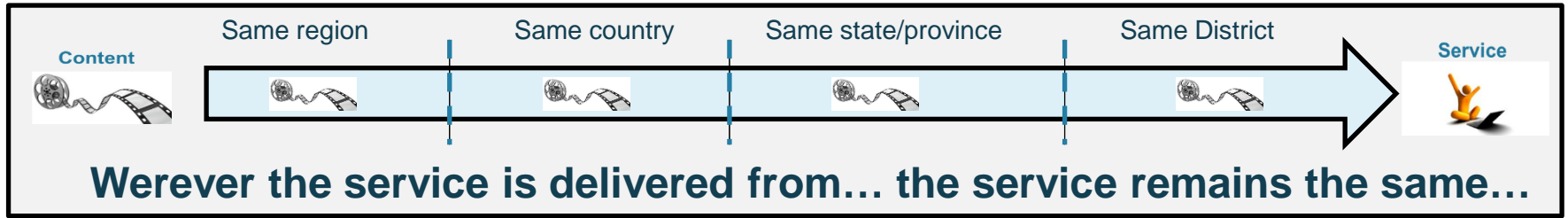


Service



Traffic

So to make a long story short...



So which pricing policy can we choose?

Pricing policies

- **Cost based pricing**
 - Current models based on P95, GB, or average traffic
 - Twist economic relations between content providers and access providers
 - Eclipses value added by the Internet Access Provider in the chain
 - Refrains technical innovation (the more efficient the less costs thence the less revenues/profits)
- **Value based pricing**
 - Not currently in use
 - Difficult to calculate
 - Value based pricing modality: Revenue sharing
- **Demand based pricing**
 - Not possible to implement due to current regulation
- **Competition based pricing**
 - Not possible to implement due to current regulation and commoditization

Competition + Value recognition + Investment return = Innovation + Efficiency + Excellence