



Pricing 4G for Profit

4G network strategies should take the worry out of exploring total mobile broadband

The Internet did not really take off until wireline operators offered end-users flat rate all-you-can-eat pricing for wireline broadband access. However, while some mobile operators are starting to offer that kind of pricing, most are concerned about the impact that increased traffic, which aggressive pricing strategies are designed to stimulate, will have on their current 3.5G networks. As a result, they remain focused on meeting the needs of early adopters with their current offerings.

Consumer experience with today's wired broadband access will set expectations for tomorrow's wireless broadband services and applications. Because they use broadband services and Internet access in their daily lives, consumers are more ready and willing to try using those services, and others yet to come, in the wireless realm. Therefore, mobile operators that want to expand their market share by addressing the mass market will have to consider both the build-out of their wireless broadband networks and their pricing strategies in order to prosper in this competitive market.

The Price Is Right

As 4G evolves, the tiered block pricing that early adopters have been paying for 3G and 3.5G services will begin to fall away, according to Darren McQueen, Vice President of IMS, Cellular and Broadband Network Technologies for Motorola. Service providers will have many good reasons to offer their existing customers and potential customers more aggressive pricing for 4G's converged voice and data services. First and foremost, they will use all-you-can eat and other creative pricing strategies to encourage people to test drive the total mobile Internet experience on their networks rather than their competitors' networks.

In addition to providing mobile operators with a fresh opportunity to attract new customers, the rise of 4G technologies such as WiMAX and LTE will result in a sea of change in global mobile networking. In addition to offering significantly more bandwidth, 4G will bring the luxury and ease of mobility into the daily lives of mass-market users.

With mobility, broadband application islands become a thing of the past. Users will be able to access and use applications that have been stuck on their desktops, using any device in any location they please—their hotel room, a café or a customer's site, etc. Mobility also enables new applications that previously were impossible to envision or support.

As profound a change as total mobility will bring, end users will not be able to fully appreciate that new freedom until they begin exercising it daily. Therefore, pricing will play a critical role in hastening consumers' uptake of 4G.

Balancing Act

As with wireline broadband access and 3G/3.5G wireless technology, service providers will have to balance network deployments with the capacity of the network technology they are using. Prices will drop as capacity increases. However, the time frame between deployment of 4G networks and the introduction of aggressive pricing will be more compressed than it was between deployment of wireline broadband access and flat-rate pricing.

"The number one rule of wireless access is don't overload the network with too many people trying to do too much," says McQueen. "When migrating to 4G, that roadblock is moved out much further."

With regard to available network capacity, the good news for mobile operators implementing 4G networks is that the capacity of these networks is an order of magnitude higher than existing 3G/3.5G networks. This in turn brings operators' cost per bit down significantly.

Whatever consumers want their 4G devices to do, they will have the same sensitivities to 4G pricing as they have to mobile phone service pricing today. Mobile operators can expect subscribers with pricing plans that offer limited usage at a fixed price to use their 4G handsets less than those with flat-rate unlimited use pricing plans.

“Studies show that subscribers with unlimited flat-rate usage plans are willing to pay more for the same amount of minutes they would use under a limited-use plan,” says McQueen.

If mobile operators do not offer their customers unlimited, all-you-can-eat pricing early enough in their 4G rollouts, they could dampen users’ enthusiasm for 4G services, he adds. Aggressive pricing helps to eliminate the “worry factor” that makes consumers wary of using their mobile devices. Worry-free pricing plans will help encourage consumers to fully embrace the idea of going totally mobile.

“Once they get their feet wet, they will see the value of the total wireless experience even more,” says McQueen. This will be especially true with entertainment applications and the increased value mobility brings to the social networking space, he adds.

“Service providers do have a delicate balancing act, since capacity of wireline networks is, and will continue to be, far higher than those of wireless systems,” says Andrew Odlyzko, director of the Digital Technology Center at the University of Minnesota. “Customers cannot move all of their data transmissions to wireless, but they have to be encouraged to try new wireless services and to use existing ones more intensively. Innovation and experimentation in services are the keys to the growth of demand and willingness to pay for broadband wireless services.”

For example, some mobile operators in Japan are offering subscribers double-flat-rate plans. These plans incorporate a low fixed fee for a minimal amount of minutes. As subscribers exceed the first tier’s available minutes, they move into the next flat-rate tier of fixed usage. “There is a ceiling, but one can exceed it for a known fixed fee, and then have freedom to greatly expand usage. This reduces the mental hassles of the customers, and provides them with a sense of insurance,” says Odlyzko.

No Fear

Mobile operators that might be hesitant to introduce aggressive pricing early in the game can take into account the fact that there is significant traction in today’s market for flat-rate tariffs. Operators that have used them have gained a significant number of new subscribers and market share in the process.

In addition, because IP-based 4G technologies allow convergence and inter-access technology hand-over, operators can make flat-rate pricing a more profitable proposition for themselves by:

- ⌘ **Continuing to build out and integrate existing WiFi and xDSL/FTTx networks into the LTE network.**
- ⌘ **Offering triple/quadruple play services.**
- ⌘ **Encouraging the use of dual-mode 4G phones.**

Whenever a subscriber with a dual-mode phone comes within range of a WiFi network – at or in an indoor location such as an airport, for example – traffic generated by the 4G device can be off-loaded onto the operator's indoor enterprise WiFi network or the operator-provided home xDSL/FTTx + WiFi connection.

In addition to strategic pricing of their services, mobile operators can gain a competitive edge and encourage mobility by strategically pricing 4G-capable phones and devices. Devices that make life easy for end users, and devices with new functionalities such as large screens that make viewing video or browsing more comfortable, and devices with e-mail capabilities will encourage faster uptake of 4G.

With 4G networks offering end-to-end quality of service from mobile device to mobile device, 4G also gives operators an opportunity to charge more for value-added services that are of the utmost importance to given subscribers. For example, a company may be willing to pay extra for high-quality video uplink streaming service for its repair crews in the field, as this provides them with an essential service.

Mobile friendly content is another key piece of the 4G-profitability puzzle. Fortunately, more and more websites are becoming aware of the needs of mobile devices. Popular media companies such as the BBC News, The New York Times and the Washington Post already offer special versions of Web access for mobile end devices and right-size the content requested for the device. As available mobile-friendly content increases so will end users' desire to access it.

Great Rewards

Like technologies before it, 4G will come to market in stages. However, because end users are already well versed in broadband access and wireless technology, their expectations are higher for 4G. Therefore, mobile operators can expect it to take less time for them to embrace the concept and convenience of total mobility. Mobile operators have an unprecedented opportunity to capture new market share as they roll out their 4G networks and court consumers. Those that are able to quickly deploy their 4G networks and make timely introductions of aggressive pricing strategies and innovative applications will earn the greatest rewards.