

New smartphone data plans could drag down innovation

July 14 2011, By Troy Wolverton, San Jose Mercury News

Get ready, smartphone users - the days of flat-rate, all-you-can-eat data are ending.

That's a bad thing for you, because it will cost you more [money](#), if not now, then in the future. It's also a bad thing for society as a whole, because the unlimited data plans have helped spur Internet adoption and innovation.

It's even bad for the wireless companies themselves, because by stifling innovation they could well chill consumer demand for their services.

Last week, in a long-expected move, [Verizon](#) stopped offering its unlimited data plan to new customers. Instead, the company is now offering plans that are priced according to how much data [subscribers](#) use. Verizon's move follows a similar one by AT&T last summer.

Assuming that AT&T's proposed acquisition of T-Mobile goes through, it and Verizon will control 80 percent of the national wireless market, which means that the vast majority of smartphone customers will be subject to these limits.

The ostensible rationale for eliminating flat-rate plans is skyrocketing data usage by smartphone customers. AT&T in particular has seen its network bogged down in places by all the iPhones and other smartphones using it to surf the Web, check email and get driving directions. In response, the carriers are spending billions of dollars to increase the

capacity of their networks and make them speedier.

Both companies have defended the caps by saying that the vast majority of their customers won't be affected. They have portrayed the moves as customer friendly, because they allow customers to pay for data according to how much they use. Moving to a tiered system allows them to charge more money to those customers who are using their networks the most.

You probably don't have to be told this, but when a company tries to portray a new pricing plan as fair and customer-friendly, you should hold on to your wallet.

For its part, AT&T could argue that it was giving customers a price break: The monthly charge for its two primary tiered rate plans was lower than its unlimited one. Of course, if they go over the new caps, they'll end up paying a lot more than before. Verizon couldn't even make that case: Its new tiered plans start at the same rate as the old unlimited plan - and go much higher.

The number of people affected by the caps is likely to grow markedly over time. Today's heavy data users are doing things that many of us will want to do with our phones in the near future, like watching movies and TV shows or connecting other devices to the Internet.

Or at least we would want to, if we didn't have to worry about running into a bandwidth cap.

The move away from unlimited plans is like a step back in time. In the early days of the Internet and online services, providers such as AOL charged customers on a per-minute basis. Because of that, you always had to be aware of how much time you were online - and limit your activities accordingly.

When AOL, then the largest Internet service provider, went to a flat-rate monthly plan for unlimited access to its service in the mid-1990s, the Internet went from a network for geeks to a mainstream medium. When wired broadband providers later followed suit, offering relatively low-cost, unlimited data plans, broadband adoption likewise took off.

Unlimited data plans also spurred innovation. YouTube, Netflix, online game services like Steam or OnLive, and even social networks like Facebook would never have become popular or profitable - and maybe not even viable - if consumers had had to constantly monitor how much data they were using. Unlimited data plans have helped foster similar innovations in smartphone applications.

It follows, then, that the new data plans are likely to curtail such [innovation](#). Who's going to develop an app that might consume a lot of data if most users won't want to use it for precisely that reason?

One argument for the new tiered plans and data caps is that they will force developers and mobile phone makers to be more judicious with their data use. I'm sure there are plenty of things they can do to be more efficient. But when it comes to things like streaming video or games or navigation, there are only so many efficiencies you can wring out. By their nature, such services involve a lot of data. By capping data usage, carriers are effectively saying they want to limit, perhaps severely, the use of such services on their networks.

Maybe you don't care because you don't want to stream video or don't want to play streaming games. But you might want to make video calls with relatives, or use some other data-intensive service. Bandwidth caps discourage developers from developing those types of apps and discourage consumers from using them.

Carriers also could suffer. Part of what spurs people to buy smartphones

and sign up for pricey data contracts are all the cool things they can do with the gadgets. It's what economists like to call a virtuous circle: Cool apps draw in new users and convince current smartphone owners to use more data. Growing numbers of users encourage more software developers to write more apps. And so on.

Capping subscribers' data usage impedes this cycle - and may very well discourage new smartphone users.

And while the carriers might want you to believe differently, there's little evidence that they need the caps to make a buck. Even if you factor in all the money Verizon and AT&T are spending on upgrading their networks, their wireless businesses are hugely profitable.

In my mind, this is all about shortsighted greed. The big wireless carriers are abandoning unlimited data plans because they think they'll make a quick buck on it. And with dwindling competition, they will most likely get away with it.

(c) 2011, San Jose Mercury News (San Jose, Calif.).
Distributed by McClatchy-Tribune Information Services.

Citation: New smartphone data plans could drag down innovation (2011, July 14) retrieved 26 April 2024 from <https://phys.org/news/2011-07-smartphone.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.