

End near for endless data use on smartphones

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FILE - In this Feb. 10, 2011 file photo, Chris Cioban, manager of the Verizon store in Beachwood, Ohio, holds up an Apple iPhone 4G. Verizon Wireless, the nation's largest wireless carrier, joins competitors Thursday, July 7, 2011, as it gets rid of its unlimited data plan for new smartphone customers.(AP Photo/Amy Sancetta, file)

When Verizon Wireless kills off its unlimited data plan for new smartphone customers on Thursday, it will mark another blow for endless Web surfing and video streaming.

The move by the nation's largest wireless carrier has long been anticipated. More people are switching to smartphones and using an increasing amount of data for all manner of wireless activities. The shift could help wireless carriers ensure that they can handle the traffic

flowing over the new higher-speed "4G," or fourth-generation, data networks they're rolling out.

AT&T Inc. and T-Mobile USA, the second- and fourth-largest U.S. carriers, respectively, have already set limits on monthly data usage. AT&T uses tiered data plans like the one Verizon is rolling out, while T-Mobile slows data speeds for unlimited data plan customers who use up their monthly allotment. Sprint Nextel Corp., the country's third-largest carrier, still offers an unlimited plan.

The death of unlimited wireless data is happening as service providers see an explosion in data usage, due mainly to an ever-growing number of smartphone users. According to market researcher comScore Inc., 77 million people in the U.S. had smartphones in the first three months of the year - up 11 percent from a year earlier. And according to a Nielsen study, smartphone users' average data growth climbed 89 percent to 435 megabytes in the same time frame.

Simply put, there's more profit to be made with capped data plans. Steve Clement, a Pacific Crest Securities analyst, said this growth just won't work with a fixed-pricing model over time, so to make money from the surging traffic the carriers have to try something else.

By moving away from unlimited plans, the carriers can profit more from the heaviest data users. And, as RBC analyst Jonathan Atkin pointed out, by offering low-level data packages - such as the 200 megabyte plans that T-Mobile and AT&T offer - they can bring in more smartphone users.

Part of the move to capped data is to get consumers accustomed to the idea that data isn't a limitless resource. If carriers didn't move to usage-based data plans while rolling out newer speedy data networks, the networks would get abused, Zachary Investment Research analyst

Patrick Comack said. And while the pricing of Verizon's network is higher than AT&T's, its service is speedier, so it can charge a premium for now.

Verizon Wireless' current unlimited plan costs existing users \$30 per month. With the new plans, smartphone users will choose between paying \$30 for 2 gigabytes, \$50 for 5 gigabytes or \$80 for 10 gigabytes of monthly data usage. Customers who use more than their allotment will be charged \$10 more for each additional gigabyte.

AT&T, meanwhile, charges \$25 per month for 2 gigabytes of data and \$45 for 4 gigabytes. The over-allotment fee is the same.

Verizon and AT&T say much of the move away from unlimited data plans has to do with making users pay for the data they really use.

"If you drive a car, you drive 50 miles, you pay for gas for 50 miles," Verizon Wireless spokeswoman Brenda Raney said.

AT&T Inc. spokesman Mark Siegel said customers told the company that they wanted a choice instead of just having one unlimited plan for \$30.

How are customers likely to react to the new plans? It depends.

Current Verizon smartphone users will not be affected, regardless of whether or not they have a long-term contract with the company.

And given that 95 percent of the company's current smartphone users use less than 2 gigabytes per month, chances are that most of the newcomers - which includes new customers and existing ones trading up to a smartphone - won't be affected by the change.

At AT&T Inc. the picture is similar: Siegel said 98 percent of smartphone customers use less than 2 gigabytes in a month.

Neil Strother, an analyst at ABI Research, believes caps on data usage will make things more confusing for consumers. Carriers will have to be increasingly transparent about what data caps mean and help them keep tabs on how much data they use. The carriers do offer online data calculators and alerts that customers can use to learn about how they use data.

"I think the issue for most people is they just don't want to have that surprise bill," Strother said.

The most recent changes don't mean that data plans will always look this way, though. Some analysts suggest that carriers might eventually offer different speed tiers, perhaps charging more to always use a 4G network, or having customers start off using their 4G network and then switching to the slower 3G network after hitting a monthly data-usage allotment. T-Mobile's existing unlimited data plan flirts with this idea already.

Strother expects to see some experimentation, saying the carriers will likely try different pricing models in order to keep themselves and consumers happy.

"Frankly no carrier wants a block of their customers to say, 'I don't like this, I'm moving to the other guy.' They want to keep you," Strother said.

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