

Internet pricing 101: Why costs are all over the map

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There are 95 million American households with fixed - as in, not wireless - internet access, but few of us really understand why we pay what we pay, especially when we hear about a neighbor or relative with a

cheaper rate and faster speed.

The answer isn't especially enlightening or comforting. In fact, we know it all too well. Traditional [internet service](#) providers (ISPs) have set themselves up to let us down with temporarily discounted fees that always go up, and a lack of choice means we get what they want to give us.

"(ISPs) want to keep pace with others in the market. It's a tough balance. If you lower your price just because the competition's [prices](#) are lower, then everyone is racing to get to the lowest price," said Brett Sappington, the senior director of research at Parks Associates. "The companies are anxious about doing that."

So instead of always reasonable, fixed rates for high-speed [service](#) - as those fortunate enough to have access to Google-owned Webpass can expect - we get something else entirely. The promotional rate. Or, in other words, a means for ISPs to preserve the price of service while still offering new customers an enticing discount.

And this is where the unpleasant cycle of haggling over rates begins.

"As I talk to broadband providers, they recognize that the end of the promotion is often a trigger for consumers to start shopping again," Sappington said. "If they don't offer something comparable, then everyone is going to leave and go to a competitor. It's a problem they recognize."

The San Diego Union-Tribune held an online poll from June 17 to July 3 to better understand what area residents are paying for internet service. Keep in mind that the results reflect what readers told us, meaning they are not scientific.

Most San Diegans have just two choices for high-speed internet service: Either Cox or Spectrum, based on their neighborhood, and AT&T, which offers a fiber or (slower) DSL connection depending on region.

The lack of competition is best seen in the comparable rates area customers are paying for internet service with Spectrum and Cox, even though speeds vary considerably.

In San Diego, Spectrum customers pay a median price of \$73.50 a month for a median download speed of 65 megabits per second (Mbps). Cox customers pay \$75 a month for a median speed of 31 Mbps. The [median price](#) for AT&T service in San Diego is somewhat cheaper at \$60 per month, but the savings come with a lower median speed of 24 Mbps.

Meanwhile, the lucky few apartment- and condo-dwellers who can get Webpass service - it's availability is building-specific - pay \$60 a month (or \$550 annually) for speeds ranging from 100 Mbps to 1 gigabit per second

Across the board, however, the most common occurrence among San Diego County survey respondents was \$50 a month for 15 Mbps.

While that price tag doesn't appear exorbitant, the speed is rather dismal. For comparison, the download speed is half the national median download speed of 30 Mbps, according to the Federal Communications Commission's most recent report on [internet access](#) services, published in April.

Things could be worse. Much worse. In rural Saguache County, a Colorado town, only 5.6 percent of adults have broadband service, in part, because residents there can expect to pay \$90 a month for 12 Mbps download [speed](#), according to a report from FiveThirtyEight.

With prices and speeds all over the map, literally, it's fair to ask: "What am I really paying for?"

"What you're actually paying for is the ability to access a stream of data over wire," Sappington said. "When you buy internet access, you're buying access to the network owned by the cable operator or the [phone company](#). You're buying a little sliver of access to that wire."

Determining a fair price for your slice, however, seems like a fool's errand.

Here's why: When your broadband provider puts fiber into a neighborhood (and that's expensive), they're playing a guessing game as to how many people will want it. And they have to do some fancy math calculations to determine how they can recover their costs. However, once the fiber is in the ground, broadband providers have limited expenses, meaning the margins per customer can be pretty high, especially relative to TV service.

In fact, broadband is the most profitable business for cable and satellite providers, Sappington said. "If it wasn't for broadband, many of them would be struggling."

And with internet access seemingly as essential as air for many people, providers clearly have the upper hand.

"If you want internet access, you've got the local cable company, the local phone company, and then you might have some competitive ISPs using much slower speeds or satellite," said Bill Menezes, principal research analyst at Gartner.

In San Diego, for instance, a small number of survey respondents said they had service with DSL Extreme, which is essentially reselling access

through copper phone lines, and speeds are noticeably slower. Otherwise, satellite internet is typically too cost prohibitive.

Thus, "it's pretty much an oligopoly between the phone company and cable company," as Menezes put it. "I think everyone wants to know, is this ever going to change?"

"Maybe it will or maybe it won't."

That's not the most encouraging of answers. But there is hope and we can, in a roundabout way, thank those smartphones we can no longer live without. Because while there's a lack of competition in the broadband industry, there's a wealth of it in the wireless sector.

Wireless carriers already provide faster connections than DSL lines did a few years ago and speeds will improve exponentially as networks deploy 5G technology. While it's not yet practical to substitute a wireless connection for a fixed one in most residences, it could be by 2020.

Menezes also points to something called fixed wireless broadband access as a potential boon for competition in marketplace. This would allow carriers to sell their wireless connections as home internet service. In this scenario, you'd use a new kind of box - one that's a wireless device with an antenna - to connect your home devices to the internet over a cellular network.

It, too, requires 5G speeds to be viable, but U.S. carriers have indicated that they want to move on this aggressively, Menezes said.

Of course faster speeds typically come with higher price tags, but one can dream that an onslaught on home [internet](#) providers would ultimately push prices down.

Unfortunately, until then, you're probably stuck with promo fares or bundles.

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