



Monthly Service Fees: Making Real Cents With Simplicity

By Bruce Bahlmann, CEO ■ *Birds-Eye Network Services*

Besides death and taxes, there are some other known facts in this universe when it comes to delivering modern day telecommunication services—like keeping your monthly service fees very simple. Simplicity is

phone call was completely manual. Warehouses full of telephone operators were required to carry out telephone calls—thus one could consider this requirement of an army of telephone operators as a significant, but neces-

over time, one could say this was an increasingly important cost that telephone companies needed to account for and track. As time passed, the "wasteful" criticism eventually sucked and most of the world's phone companies moved to metered (or usage-based) billing.

Like the phone company, electric companies faced similar challenges in distributing power to growing nations. While today's power companies face increased competition in delivering power to homes and businesses, there are one or more significant, but necessary, fixed costs associated with that

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what drives innovation and what differentiates market leaders from wannabes. In this article we look at the "hype" surrounding usage-based pricing while we provide you with a bit of history along with a different perspective about why you should think twice before changing your existing fixed monthly fee pricing for these "next generation" usage-based alternatives.

History of Usage-Base Pricing

Ask anyone for examples of successful usage-based pricing models and their immediate responses will likely include telephone, electric, and cellular phone services. Interestingly enough, telephones didn't start out as a usage-based service. Instead, telephone service was initially established using a fixed monthly fee in the early 1900s. Similar to modern day high-speed Internet services, at that time phone services were highly criticized as being "wasteful" and that it "favors large users" by "independent" investigations. One of the facts that these claims had going for them at that time was that the setup and tear down of each

sary, fixed cost of doing business. Since the rate of labor generally increases



industry including fuel for the power generation plants. The presence of a significant, but necessary, fixed cost plays an important role in the pricing

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of a service—especially if this fixed cost seems to fluctuate or has a tendency to increase. Such costs are strong indicators for potentially successful usage-based pricing models. Beyond these unique cases such as generating electricity, few of these models actually exist because simplicity is what drives innovation, and innovation ultimately lowers, nullifies, or eliminates fixed costs. What is odd about usage-based billing is that even companies who must use this method to remain profitable find ways to offer simpler billing options to their customers. For example, most electric companies now offer budget plans that can average each customer's yearly utility bills in an effort to offer services that more closely represent fixed monthly fees even though they still monitor and report each customer's usage.

Some people would argue that usage based billing is popular, widely accepted, and allows service providers to maximize profits. I would argue that normal people only pay these usage-based charges because they can't do without the associated technology, so they "have to" pay for the convenience yet are "hungry" and "ripe" for fixed cost alternatives. Essentially, usage-based charges were put in place by service providers out of the fear of losing money in delivering newer services. Therefore to maximize profits when subscriber usage is unknown or directly linked to significant, but necessary, fixed costs these complicated service plans (including usage-based options) receive serious consideration.

However, as has time passes, the costs to deliver these services significantly drops, initial capital investments are paid down, and the competition for

these services increases, you begin to see service plans simplify.

Today, you no longer pay for local phone calls and many new long distance carriers now provide an "all you can eat" service plan for a fixed monthly fee. Perhaps you thought the telephone companies were riding the high road to profits by exploiting their highly lucrative usage-based pricing plans.



Guess what? Simplicity even prevails over technological innovations geared to maximize profits from telecommunications. Why? Because ultimately service providers need customers to survive so to cater to the masses, the

service provided must be simple to use, simple to understand, and most importantly - simple for their users to justify the expense. In the case of the telephone industry, simplicity (or fixed monthly fee) is the phoenix that has overcome previous termination and is on target to once again dominate the marketplace.

I anticipate that within the next few years, even cellular services will abandon monthly fee service plans. Why would cellular give up this gem? The answer lies in the hidden costs of supporting usage-based billing options as well as the unintended consequence that usage-based billing options have on customer usage of the technology.

Misconceptions Regarding Usage

There is nothing but complexity associated with usage-based pricing. From the technology it takes to accurately collect and store it to the systems

required to properly calculate and bill for it, usage based billing is a drain on the economics of service delivery. Take Cingular's new plan that allows you to carry forward paid for but unused minutes from month to month. This is

a very innovative feature for them, but it has to be a nightmare for the billing

usually make the connections. Fixed monthly billing however has shown to

ing much attention to history. Clearly, usage-based models will maximize revenues only at what costs? Service providers moving to usage-based service plans open their doors for unnecessary competition that can place their core customers at risk. I believe the true cost of usage-based plans is that it discourages the very behavior that all telecommunications companies want to encourage and cannot survive without - USAGE. Usage is what justifies businesses and creates opportunities for businesses to diversify. I perceive telecommunications companies seeking usage-based options are only seeking near term profits—not long-term growth. For those of you who stand by your fixed monthly fees, remember this—history is on your side. ■

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department—not to mention the financial health of the company. If monthly revenues rise and fall based on customer usage, Cingular's competition has got to be licking their chops.

Another problem associated with usage-based billing is that discourages use. In studies where similar groups with usage-based billing were compared with flat rate billing the usage based groups maintained relatively flat usage growth. Perhaps early phone companies were motivated to implement usage-based billing out of the necessity to limit usage during a time when their capacity to handle calls was limited by the human capacity to man-

stimulated growth in usage in addition to growth of new subscribers. In fact, services that have migrated over to fixed monthly billing from usage-based billing have seen their service usage triple. Clearly, customers prefer to deal with known quantities when paying for telecommunications services. The more variables within a plan, the more complex it is, and ultimately the less popular it is among its customers.

Interestingly, for any telecommunications service 'usage' is something that should be revered, not controlled or exploited. I feel telecommunications companies seeking to move to usage-based billing options are really not pay-

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