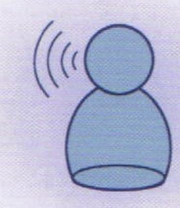
Every Story

Sandy Says: Simple Pricing Kick Started the Cable Modem Market

With high-speed data services such an accepted part of today's culture, it's easy to forget the birth pangs of the industry. In 1997, the residential broadband market was just starting. Most cable modem customers were early adopters who had been using a second phone line for their dial-up Internet access. Although surveys put PC penetration at about 40% of U.S. households, they estimated that only about 15% were connected to the Internet and very few were heavy users. One analyst was quoted as saying: "The cable modem market will grow by leaps and bounds in 1997, with the major operators making the service available to about 5% of their customer bases by the end of the year." @Home (remember them?) closed in 1997 with about 50,000 customers. ADSL was just moving from trials to commercial rollouts.



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Most PC owners had no idea what the Internet was for or why they should pay more for broadband access. MSOs needed to create market awareness and an appealing customer value proposition. Customers don't generally buy things they don't know they need, so the big challenge was to relate data services to what customers already had (which was dial-up) and explain why broadband was better. That was most easily explained by saying "50 times faster than dial-up."

While various forms of usage-based pricing are common in other countries, early online services such as Prodigy and AOL had led consumers in the United States to expect flat-rate pricing. With most dial-up Internet services already priced at a flat monthly rate, the easiest path for cable modems was to do the same. If MSOs had launched using usage-based pricing schemes, the uptake of cable modem service would likely have been substantially slower. The broadband market would have grown slower and MSOs would probably not have achieved their early market lead. While the telcos would have preferred usage-based pricing for DSL, the MSOs had already conditioned market expectations to a flat rate for unlimited service. Service providers started using raw speed ("four times faster than ADSL") to differentiate themselves from their competitors.

Flat-rate pricing removed fears about runaway bills, giving broadband users a comfort level to experiment with different services and applications. It encouraged the investment in bandwidth-rich applications taking advantage of "unlimited use" pricing.

Broadband video is now growing rapidly. Peer-to-peer video came first. Since many P2P users violate copyrights as well as placing heavy loads on networks, MSOs were able to apply bandwidth-limiting technologies in the belief that few mainstream users would be sympathetic to complaints from heavy P2P users. Streaming video from legitimate providers is a different story and is becoming increasingly important as networks and film studios experiment with different ways to reach their audience. The magnitude of the demand that video services would place on data networks was clearly not anticipated. Operators also were worried about the costs that would be imposed by implementing metered billing.

Now that consumers have discovered how important broadband is to their lives and video applications are growing rapidly, operators need to get more revenue from users who impose heavy demands on network resources at peak load times. The challenge will be to develop mechanisms that give customers increased value for paying more, don't run afoul of public policy considerations and don't chase the most loyal and profitable customers into the waiting hands of the competition.

Technology and engineering are just as critical as market messages and strategic pricing. As the basis of competition moves from raw speed to capacity and service integration, cable's technical community will be challenged.

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