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Verizon launches “Share Everything” wireless pricing plans

Share Everything, the new rate plan structure announced by Verizon Wireless, represents the largest business model innovation in the wireless industry in recent memory. Not since AT&T Wireless announced its *Digital One Rate* calling plans in 1998 has there been such a major shakeup in wireless pricing. Touting its new plans as revolutionary – “[they] will forever change the way customers purchase wireless services” – Verizon announced its new “Share Everything” plans on June 12, 2012. The Share Everything plan puts every customer into an unlimited voice minutes and unlimited text, picture and video messaging bundle. The plans, designed to be shared with multiple devices similar to family plans, also provide a single allowance of data to be shared by as many as 10 wireless devices on the same account.

The new plan becomes available on June 28, 2012 and is mandatory for all new subscribers. Existing Verizon customers may adopt the new plan without a contract extension, or may remain on their legacy plans, at least for now. Some existing customers will be able to save money by making the switch, while others that are low volume voice/text users will be better off by staying on their current plan. Verizon has also made it clear that it does not want customers to remain on its legacy unlimited data plans. Those customers that keep the unlimited data plans will no longer be eligible for “new every two” subsidized handsets.

How does the Share Everything Plan work?

As shown in the accompanying table, consumers first select one or more devices that meet their needs. Each device is charged a per-device monthly access charge. The consumer then selects a “plan,” although all of the “plans” are identical except for the data allowance and the price. Up to ten devices share the data allowance and split the single, per-account plan access charge. A customer with an Android smartphone, a regular mobile phone, and an iPad would pay $40 for the smartphone, $30 for the regular phone, and $10 for the iPad in device access charges. Assuming the customer opts for the 2 GB tier, he would also pay $60 for the plan account access, or $140 total before taxes, fees, surcharges, and data overages.

Verizon suggests that the plans are worry-free, which is true enough for voice and SMS usage, both of which are included in the plan with unlimited usage for all devices. Users do need to keep an eye on their data consumption, however – even moreso in the future as the availability of streaming video content continues to escalate (see accompanying story). Although Verizon allows users to switch data tiers on a monthly basis, exceeding the monthly allotment of the plan carries an overage charge of $15 per gigabyte.

Data sharing

One of the major changes that comes with the Share Everything plan is a bucket of shared data usage. Although family plans have allowed for the sharing of voice minutes, data and texting have historically been sold as device-by-device add-ons to the plan. This change has two major effects for consumers. The obvious change is that consumers can add tablets and other ancillary data devices to their account at a fraction of the cost of current plans (Verizon currently charges $20/month per tablet for data access). The second, more subtle, change is that the data portion of the plan is now baked into the monthly contractual bundle price, rather than being a non-contractual add-on. This means that consumers signing a two year contract are on the hook for paying for the whole package for two years, and consumers who don’t want to pay for data will be limited to a single Verizon plan targeting “dumb” phones. In the spirit of data sharing, Verizon has also removed the additional fees associated with “tethering,” where a consumer uses her smartphone as a WiFi hotspot to provide connectivity to other devices.

Step 1		Step 2			
Monthly Line Access (Per Device)		Shared Voice Minutes	Shared SMS Messages	Shared Data	Monthly Account Access (shared with up to 10 devices)
Smartphones	$ 40	Unlimited	Unlimited	1GB	$50
Basic Phone	$ 30	Unlimited	Unlimited	2GB	$60
		Unlimited	Unlimited	4GB	$70
Jetpacks / USBs / Notebooks / Netbooks	$ 20	Unlimited	Unlimited	6GB	$80
Tablets	$ 10	Unlimited	Unlimited	8GB	$90
		Unlimited	Unlimited	10GB	$100

The consumer impact

The good news is that, for almost all consumers that use data, Verizon's new plan represents either a chance to save a few dollars, or at least break even while gaining unlimited voice and SMS usage. For example, a consumer on a single user plan with unlimited voice ($70), SMS ($20) and 2GB ($30) of data currently pays $120 for the package and would save $20 a month on the new plan while gaining the ability to add devices at a low cost and use a smartphone as a WiFi hotspot at no additional charge. Consumers that presently have data plans, but are otherwise low volume voice and SMS users, would likely pay more for service if they made the switch. Individual subscribers (who do not purchase large bundles of voice or SMS) will likely pay about $10 more a month for service. At the other end of the spectrum, users with four or five devices with data plans (but low voice/SMS allotments) currently on a family plan would pay $10-$30 more a month under the new regime, depending upon how many smartphones are on the plan. (Verizon's new pricing plan does come with a voice/SMS-only offering for those customers who don't want data). Consumers certainly are left with fewer options under the new pricing. New budget conscious customers have no choice but to select a plan with unlimited calling and texting.

Consumers that use multiple data-capable devices have the potential to cut their bills substantially. A customer with a smartphone ($120), data hotspot ($50), and an iPad ($20) would save $20/month even if he adopted the top-tier 10 GB data option, and would save substantially more if a lower data tier would suffice.

What's in it for Verizon?

It is no secret that mobile voice minutes have been on the decline in the last two years, and that new smartphones offer non-carrier messaging capabilities that replace traditional SMS services. Although carrier-based SMS usage grew in 2011, the growth rate has slowed substantially, and 2012 could well see a decrease in overall SMS usage. Given these trends, Verizon benefits from these new flat rate plans by locking in a minimum revenue level for these two aging, cash cow services, the use of which will most likely decline for several years from peak levels. As we recently observed (*Views and News*, February 2012), the price point for cellular data use on tablets was prohibitively high, such that most tablet owners skipped cellular service in favor of widely available free WiFi. By lowering the entry point for tablets and other non-phone devices, Verizon will likely capture incremental revenues at little marginal cost.

High volume users may be affected by the plan changes. Verizon is increasing its data overage charge from $10 to $15 per GB of data. It is also providing a serious incentive for users on the grandfathered unlimited data plan to switch onto a plan with measured (and more expensive) data: users can keep their unlimited data plan, but will no longer be eligible for subsidized handsets from Verizon. New smartphones typically include a $200 to $500 retail discount with a new two year contract. At the upper limit, the lack of subsidy would translate into about $20/month of additional revenue for Verizon if a customer actually paid rack rate for a handset.

Verizon is also upping the ante on low volume users, locking in a minimum voice/SMS ARPU of at least $50 for any subscriber who opts to use text messaging or data at all. Unprofitable low volume users that won't pay the higher flat rates will be forced to look for another carrier.

Rival AT&T (which together with Verizon controls nearly two thirds of the US wireless market) has signaled that it will launch a similar pricing overhaul in the near future. AT&T has not yet provided details of its plans. Sprint and T-Mobile have criticized Verizon's new plan, suggesting that customers will be hurt by higher prices and fewer choices. Despite these claims, the US wireless market is notorious for lockstep, industry-wide price changes – it seems likely that Sprint and T-Mobile will be compelled to change their pricing strategy in response to Verizon.

Netflix, Google bring content to the network edge

Caching content at the network edge close to the end user is not a new concept. Content Delivery Networks (CDNs) such as Akamai and SAAVIS have been providing such services since the late 1990s. What is new is that several major web-based companies are taking this service in-house, and collocating their own servers at ISP-owned facilities. CDNs have long been a win-win for website owners and ISPs, speeding up delivery of web content while reducing traffic on Internet backbone networks. Now individual web companies are striking deals directly with ISPs and installing their own servers at ISP locations.

Netflix is delivering nearly one billion hours of video per month worldwide and has accounted for some 35% of all Internet traffic at the end of 2011. Without the capability to serve content at the network edge, Netflix (and many other web-based businesses) would experience serious transmission capacity constraints. Netflix's new "Open Connect Content Delivery Network" appears designed to circumvent disputes such as those between Level3 and Comcast over the local delivery of video content. Netflix magnanimously offers its in-house CDN services at no cost. "ISPs can choose to have Open Connect Appliances within their datacenters, or to peer with the Open Connect network at common Internet Exchanges. Netflix will provide either form of access at no cost to the ISP."

This vertical integration of content delivery services by the largest web properties makes good business sense, but raises some competitive concerns. Small competitors that do not have the operational scale or clout to negotiate their own CDN deal with ISPs nationwide will be forced to pay for IP transit from a central web server, or for a third party CDN service, thus raising their costs above larger rivals. Net Neutrality concerns also surround these deals. Most of these in-house CDN relationships are secret and not subject to disclosure, leading to worries that larger companies are negotiating favorable treatment of traffic being delivered by the CDN, or that ISPs will inherently favor content that doesn't increase backbone traffic loads or peering costs.

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