

# Verizon Cedes Control of the Value Chain



Verizon seems to have accepted that it has no value to add. They announced a “Verizon iPad” but it’s really a generic iPad. All they are doing is a marketing bundle with their commodity bit transport via a separate MiFi device.

This is in sharp contrast with ATT which sells a version of the iPad with their 3G service built-in thus locking it to their silo.

Decoupling the devices is a step forward but it

does represent a retreat from the carriers’ effort to lock users to their services.

With a generic device you don’t need to buy anything from Verizon. You can use any device that provides access such as an Android with tethering or a Windows 6 phone with Internet Connection Sharing (ICS). You can also share a connection from any laptop – Windows has had ICS built-in ever since Windows in 1998.

It is a sign that the cellular business model based on controlling the silo is expiring and, for the old line carriers, there is no exit.

Without lock-in the carriers will find it hard to force people to pay a premium for their services, especially when they cripple the 3G capability.

I have one of the ATT “3G” iPads. When I try to download updates I get a message telling me that I can’t use my ATT account when I’m downloading more than 20MB even though I signed up for at least 5GB each month! They can only do this for an update from the app store because they required Apple to cooperate. Otherwise how would they know I am going to download 20Mb ahead of time?

To quote a TV ad – there is only one Internet so why do I feel like I’m a rat in a maze created by arbitrary pricing plans. It’s easy to see how one could provide software to negotiate this pricing maze dynamically. We also have

examples (as with [FON](#)) of attempts to provide communities that swap rights.

All this complexity comes at a high cost yet creates little value. Lawyers who create “agree” screens we must go through before using amenity Wi-Fi reduce the value of such offerings because they don’t understand the concept of bits. JetBlue’s T5 is one example (Please do your part and tell JetBlue that their lawyers are creating a user-hostile environment)

Despite all this complexity the carrier’s business model is not sustainable. We are increasingly able to find cheaper bits. It leaves Verizon getting \$10/month the few times when our software can’t find a better deal. How can they pay off their massive investment in their private infrastructure?

Without control of the services silo the carriers can’t really get a cut of the value you create. With Voice over IP that means they don’t even get to charge for voice services (AKA phone calls). And with so many supplies providing Wi-Fi as an amenity the price for bits is not sustainable.

The same is true for wired broadband. With “over-the-top” (TV over IP) the fibers and wires are simply identical bit paths. The market cannot sustain redundancy, especially when 1% of one wire can support the existing content.



[Broadband](#) is not about the Internet. It’s about the business model of controlling value chains. We need to decouple the business from the physical infrastructure just as Verizon has decoupled its transport from the iPad. In fact with broadband we’re paying a lot of money to limit ourselves to narrow billable paths! If we treat it as a common infrastructure then many of the costs and much of the complexity would disappear.

As the market shifts from services locked into silos to bits it will be hard to maintain price differentiation and thus arbitrary prices. With copper wires, fibers and radios being fixed assets there is little ongoing cost. Without having to negotiate our way through a thicket of arbitrary prices routing becomes simple and inexpensive.

We can easily pay for this physical infrastructure just like we pay for the networking in our homes and on our campuses and in our offices.

It means that the business models that are confined to selling bits are not sustainable. So why is the FCC focused solely on sustaining such models instead of helping us into a future of abundant bits (AKA, abundant connectivity?)

Comcast and Time Warner are already shifting away from “cable” as a source of income. This is why Comcast is buying NBC Universal. Verizon and ATT have a harder time because their business is more closely tied to the network rather than applications that use networking.

The real message of the Verizon iPad is that it’s just an iPad. The business model of the iPad is not tied to the business model of infrastructure.