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Quick Take: Innovate Around The Death Of Net Neutrality

With Internet Providers Free To Build Slow And Fast Lanes, Design Around Cost And Bandwidth Uncertainty

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Why Read This Report

The US Federal Communications Commission (FCC) has repealed the 2015 regulations requiring equal treatment for all internet traffic, commonly known as net neutrality. If they choose, carriers can now charge more for higher bandwidth or lower latency. Forrester's advice to infrastructure and operations (I&O) leaders and their companies: Accept the rule change as a reality of doing business, and focus on mitigating the impact on customers and operations.

Net Neutrality Is Dead — It's Time To Deal With It

On December 14, 2017, the FCC repealed the 2015 regulations on internet traffic known as net neutrality. Net neutrality required carriers to give all internet traffic equal priority; thus, until now, heavy video streaming has received the same treatment as light internet-of-things (IoT) telemetry data. There are no bandwidth or latency guarantees in the current system, but every content and application owner gets the same price and access to the network. Carriers have little incentive to create bandwidth they can't charge for, but consumers get free and equal access to any content producer. This vote reverses that 2015 decision: The FCC will no longer regulate ISPs with regard to tiered pricing and delivery. For example, AT&T, Comcast, or Verizon can now create fast and slow lanes and service packages that let content and application owners pay more for faster or lower latency networks.

Avoid Politics, And Do What's Best For Your Customers

This is an agency regulatory change, not a law passed by the US Congress. It may be challenged in court, kicked down the road a while, or overturned by the next administration. Forrester's advice for I&O professionals and their firms: Don't let the politics of this change distract you from serving the needs of your customers. Instead, do what investors and entrepreneurs have already done and factor the death of net neutrality into your strategy and operating model. As a leader, you need to understand how these new rules will affect your business.

Enterprises: Plan To Spend More Money On Distributed Offices And New Workloads Like IoT

Much of this ruling seems to affect consumer services, not large firms. However, most big companies depend on small offices and home offices. Leaders of these firms have a vested interest in this ruling, as do those pursuing an IoT expansion. In these situations, you must:

› **Reconsider whether home and remote offices should use consumer-grade internet.** Consumer services are appealing for small businesses and for remote offices of larger enterprises because they're easy and cheap. But if you choose such services in a world of tiered delivery services, your provider may throttle the internet for your home workers. Either reimburse consumers for higher-bandwidth services or insist on business-grade broadband services bound by service-level agreements (SLAs). Have this conversation with partners that may be trapped in consumer-grade ISP connections as well.

› **Start the conversation with carriers about low-latency needs for your IoT applications.** An IoT scenario for remote monitoring, for example, can fail if the message is delayed. You'll need more assurances for time-sensitive use cases like IoT devices and applications. Demand — and expect to pay more — for better, more refined SLAs around latency in these scenarios. Forrester expects carriers to offer a variety of plans to support IoT and other digital operations that encompass bandwidth, quality of service, and reliability offerings. You can thus potentially trade a simpler edge for increased wide-area network (WAN) complexity.

› **Revisit, but not abandon, your SDWAN use.** I&O leaders turned to software-defined WAN (SDWAN) technologies and services for relief from burdensome MPLS contracts. Carriers, which are now free to control traffic, could nullify that value. While SDWAN can help companies use multiple types of connections to improve reliability, don't assume that internet will reduce WAN costs. Spend more time evaluating the value of SDWAN alongside more traditional options.

› **Renew your focus on network engineering.** Never assume that network performance is guaranteed, unless you engineer it in. Business applications and IoT devices that transmit data across private networks aren't affected by the end of net neutrality. However, more of these apps and devices do span the public internet. Expand your use of monitoring, analytics, and automated actions to bolster your engineering efforts.

Media Companies: Rethink Business Models And Prioritize Customer Obsession

Marketers and media companies know they must embrace customer obsession to survive, with or without net neutrality.[1] But as the repeal reverberates across industries, media companies will once again balance their need to drive growth with the demands of their customers, on both the B2B and B2C sides. Carriers that have become media companies, developing — not just distributing —content as well as offering ad inventory, adtech, and premium data, will struggle to ensure that partnerships across the media value chain balance the interests of the consumers and marketers who pay their bills. In the new, unregulated world, media companies should:

› **Prioritize bundling over à la carte services.** This particular pendulum swings far and often, but the unbundling craze is evidently coming to an end.[2] Stripped-down services with à la carte add-ons appeal to a subset of customers who prioritize cost over breadth of content and services, but most customers with implanted pricing and speed expectations will be irritated by pricing complexity of sites, apps, and content. Business model innovation is laudable, but media companies must understand what their customers want and need. Develop new offerings from that starting point rather than from gut instincts.

› **Innovate ad-supported business models.** Consumers today have two choices: pay for content and services with limited or no advertising or accept advertising in exchange for free access. But in a world where customers pay for accelerated access to Facebook and Google, they pay with both dollars and their data. Those US online adults who are Data-Savvy Digitals will vocally protest this change in the expected quid pro quo.[3] Ad-supported media firms will have to find new or newly positioned revenue streams. Reduced ad load in favor of premium placements — at premium costs — seems like the most obvious place to pivot. Creative execs at media companies must figure out how to appeal to long-tail small and medium-size business advertisers that rely on Facebook and Google as their bread and butter.

What It Means

Pricing Experiments, Content Bundling, And New Regulation Lie Ahead

Many I&O professionals and tech firms see this ruling as a great step backward, but it won't be the digital Armageddon that some are predicting. Markets will innovate and impose their own checks and balances. Carriers now have a big opportunity to reestablish standard practices for buying and selling network capacity. The market will accept some price changes (like bundling) and reject anything that appears unfair. The ecosystem that includes carriers, consumers, enterprises, media producers, aggregated services, software companies, and resellers will adapt. Because of this ruling:

› **Content providers will form strategic partnerships or build their own networks.** Many carriers have their own content businesses and will be tempted to constrain access to competitors' content.[4] Forrester believes the US Federal Trade Commission (FTC) will tune into this anticompetitive behavior and sanction carriers that practice it. Content providers and distributors will thus be forced to do one of three things: 1) pay a premium to maintain service quality; 2) work with partners that don't compete, so they can negotiate better rates; or 3) acquire their own connections.

› **Alternative provider networks will look more appealing.** Carrier alternatives via cloud service providers, colocation providers, content delivery networks (CDNs), and managed service providers are already drawing networking business away from carriers.[5] If carriers complicate networking, more firms will move to these alternatives. Intense wireless competition will trump wireline options for the last mile and keep the various players honest — especially once 5G wireless becomes widely available.[6] Service providers of all forms must address the increasing demands of customers for software-defined WAN, high speed at a low price, transparency, and flexibility.

› **Pricing will become more granular, determined by data type.** Unequal traffic treatment will allow carriers to either charge by data volume or offer tiered pricing by traffic type, providing a larger range of price points. Pricing based on performance tiers makes more sense for enterprise customers that favor consistency in cost and service. Carriers must provide pricing and performance transparency so enterprises and consumers can make informed decisions — and hold carriers accountable for SLA violations.

› **Less regulation will, ironically, result in more oversight.** State and local governments will push for more competition, as will the FCC and FTC.[7] Government entities that once protected the big telcos will embrace the idea that utility companies, tier 2 providers, and other companies can be good alternatives. Just as T-Mobile and others offer unlimited data plans, these telco alternatives will provide connections without lanes. All carriers must focus on customer demand and deliver fast services at competitive prices.

Endnotes

1 For more on the steps to take to pursue customer obsession for media and marketing firms, see the Forrester report "Predictions 2017: Media Disrupts Itself With New Business Models And Unexpected Partnerships" and see the Forrester report "The Model For Modern Marketing."

2 Source: Jeremy G. Philips, "Don't Look Now, but the Great Unbundling Has Spun Into Reverse," The New York Times, February 14, 2017 (https://www.nytimes.com/2017/02/14/business/dealbook/bundling-online-services.html?mcubz=0).

3 Data-Savvy Digitals are online adults who expressly tell us they give data in exchange for free access to content and services.

4 Comcast owns the NBC Universal entertainment assets. AT&T's pending acquisition of Time-Warner poses a similar scenario of potential carrier favoritism.

5 For more on the changing landscape of network services, see the Forrester report "Adapt Your Network Strategy To Thrive In A Shifting Ecosystem."

6 5G wireless services promise far greater bandwidth, but its widespread use is not expected prior to 2020. See the Forrester report "Mobile World Congress Misses An Opportunity To Promote The Data Economy."

[7] Source: Harper Neidig, “FCC, FTC announce partnership to police internet after net neutrality repeal,” The Hill, December 11, 2017 (http://thehill.com/policy/technology/364336-fcc-ftc-announce-partnership-to-police-internet-after-net-neutrality-repeal).

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