

## Broadband Costs Continue Accelerated Decline; Provider's Real Cost for Your Usage: \$1/Month

Prices to move data across the Internet continue to decline throughout the world. According to new data from TeleGeography's **IP Transit Pricing Service**, price declines in most locations accelerated over the past year, at an accelerating pace. But none of those savings are showing up on customer bills. In fact, while providers have been *increasing* broadband prices over the past three years, their costs to provide the service continue to *plummet*.

"IP transit prices have reached extremely low levels in developed markets, but remain high in many developing markets and in countries that are remote from major IP transit hubs," said TeleGeography analyst Erik Kreifeldt. "Nevertheless, few places remain where transit prices exceed \$100 per Mbps. As carriers expand into emerging markets and establish new price floors in developed markets, global IP transit prices will continue to fall."

The median monthly lease price for a full GigE port in London dropped 57 percent between Q2 2011 and Q2 2012 to \$3.13 per Mbps, compared with a 31 percent decline compounded annually from Q2 2007 to Q2 2012. In New York, the comparable price dropped 50 percent to \$3.50 per Mbps over the past year, and 26 percent compounded annually over the five-year period. Pricing for short term promotions and high capacities have dropped below \$1.00 per Mbps per month.

*DSL Prime's* Dave Burstein **says that translates to Internet backbone wholesale pricing of less than \$0.50 per broadband customer per month** in New York or London.

Burstein also notes router and switch prices are also matching the predicted pace of Moore's Law, declining 25-40 percent per annum. With competition for backbone connectivity robust in North America, the reduced costs are passed along to large broadband providers, but not to customers.

Burstein reports that while Internet traffic continues to expand at "ferocious rates," ***your broadband provider's net cost has been generally flat or even down***. In fact, he estimates that when providers add up the cost of backbone transport costs and moving traffic from their network to individual customers, ***they end up***

***spending less than \$1 per month on traffic per customer.*** But they charge you \$40-50 or more for the service.

Burstein also notes that ***broadband usage has almost no impact on provider costs***, whether they offer 3Mbps or 1,000Mbps service, have caps of 50GB, 500GB, or no caps at all.

“With bandwidth costs this low, we’re talking dimes or at most a couple of dollars per month to handle any likely traffic flow,” Burstein reports.

Even accounting for perennial predictions of data tsunamis from equipment manufacturers like Cisco, their own data shows the primary cost of Internet traffic per customer is falling, according to Burstein, even as data consumption increases.