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Press Release

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NEW STUDY SHOWS THAT THE PROLIFERATION OF INTERNET DEVICES AND APPLICATIONS IS DRIVING INCREASED PRICE COMPETITION

The evidence on price competition calls into question the causal relationship between industry concentration and pricing for broadband

WASHINGTON, D.C. – In a new study released today entitled *Shocks to the Broadband Ecosystem: Implications for Competition and Market Structure*, the Phoenix Center evaluates the consequences to broadband service providers from the tremendous innovation in Internet applications and devices. According to the Phoenix Center, as consumers continue to flock to network-agnostic devices and over-the-top services, they are less wedded to any particular broadband service provider. The problem appears particularly acute for mobile wireless networks where much of the innovation is directed. As a result of this “commoditization” of broadband services, network operators are likely to intensify price competition with each other to the benefit of consumers. However, given the high fixed and sunk costs required to build and operate broadband networks, increasing the intensity of price competition could also result in lower profit margins, thus potentially shrinking the equilibrium number of firms that could profitably serve the market. This possible result is of interest for policymakers because it could mean that in an inter-related broadband ecosystem, prices fall even as markets become more concentrated.

“The economics of the Internet ecosystem are extremely complex, and our research demonstrates that a disturbance to one part of an ecosystem inevitably flows to other parts of the system,” said study co-author and Phoenix Center President Lawrence J. Spiwak. “Our research also demonstrates that a simple ‘head-count’ of number of competitors is not an accurate analytical tool to evaluate the performance of a broadband ecosystem or to justify new regulation.”

“While the concept of a broadband ecosystem seems to be the popular term *du jour*, it does not mean that economic first principles have radically changed,” says Dr. George S. Ford, the Center’s Chief Economist. “By establishing the nature of economic forces that bind elements into an ecosystem and then formally modeling their implications, we can better understand the consequences of what is happening in the market today and improve public policy.”

PHOENIX CENTER POLICY BULLETIN NO. 30, *Shocks to the Broadband Ecosystem: Implications for Competition and Market Structure* may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/PolicyBulletin/PCPB30Final.pdf>.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of telecommunications and high-tech industries.

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