Ovum's innovative service of the month: AT&T's sponsored data

OVUM VIEW

Summary

As part of Ovum’s ongoing Telco Services Innovation Radar research, we have reviewed approximately 120 announcements of innovative services launched by service providers around the world in January 2014. We selected AT&T’s new sponsored data service for enterprise brands as the month’s most innovative service. The service provides new data use options for customers and new mobile content delivery channels for sponsors. Under this new service, eligible data usage charges are billed directly to the sponsoring company. Data sessions are identified by a “sponsored data” icon on the end user’s device, and the usage is itemized separately on the end user’s monthly invoice. The service introduces a new business model for broadband connectivity for AT&T and paves the way for others to follow suit.

Sponsored data encourages mobile data usage while spreading the cost of transport

AT&T’s new sponsored data service is a good example of a telco innovating around a basic service offering (broadband access) to generate revenues and use the network in new ways. This service addresses two key industry needs – to encourage mobile data consumption and spread the cost of that additional consumption to others besides the end user. AT&T is able to encourage more usage on its network, while the sponsoring company is able to promote and encourage the desired customer behavior on their website or interaction with their online or mobile service. The customer benefits from being able to consume the content or use the third-party provider’s services without bearing a transport cost for that consumption.

For AT&T, the service aligns with the company’s long-standing view that there should be a way for content providers who generate demand for their content to help pay for access to that content.
Service enables new mobile business models for AT&T and its enterprise customer brands

AT&T's sponsored data service is versatile. Sponsoring companies can set up an offer based on almost any kind of data or content including video, audio, a web page, or a specific PDF or image file format. The service also includes access management features for the sponsoring company to monitor and manage a specific offer. In addition, the AT&T service provides campaign analytics to the sponsor via a customer web portal, enabling sponsors to view and manage usage, billing, and charges, and to better understand the effectiveness of each individual sponsorship offer. Charges for sponsored usage appear on the company's billing statements. As with any new business models, success depends on how well AT&T educates potential customers about the benefits of using the service. The visibility and management features along with the analytics tools should encourage enterprise sponsors to try the offer.

Sponsored data addresses data traffic costs, not prioritization

The announcement of AT&T's new service has met with concerns about net neutrality implications. However, AT&T has insisted that sponsored data will be delivered at the same speed and performance as non-sponsored data. The service addresses only who pays for the sponsored traffic; it does not prioritize that traffic, nor does it throttle usage of non-sponsored mobile destinations or content.

AT&T was smart to use customer examples such as car or medical insurance companies. For these customers, the objective in sponsoring data is to encourage compliance and expedience with certain activities such as filing an electronic claim for a car accident, or participating in a remote healthcare or educational program for a health condition. Both these will help insurance company customers lower the cost of customer claims.

Other potential use cases include:

- encouraging customers to try a new application
- promoting movie trailers or games
- providing remote patient healthcare via video calls
- allowing businesses to subsidize the use of specific business-related apps on employees' phones
- enhancing customer loyalty programs by providing sponsored access to products, services, or online content catalogs.

Still, there would be significant advantages for big brands such as Netflix or Amazon if they were to pay for the transport of their own content, while smaller players lack the spending resources to sponsor their own data traffic. In reality though, these advantages are not that different from the greater ability of these larger brands to promote themselves through large-scale sales and marketing, advertising, or partnership initiatives.

The concern raised by opponents of the service is that sponsored data will eventually lead to the creation of "two Internets" – one that is heavily subsidized by name brands with the money and presence to absorb the cost of delivering free content to users; and another sub-standard Internet
delivery channel that customers have equal access to, but at the expense of higher cost to the end user and potentially an inferior quality of service.

Any attempt by AT&T to adopt practices that lean towards favoring the traffic of sponsors over other traffic would be met with intense scrutiny by the Federal Communications Commission. Furthermore, it would also invite a huge outcry from consumers and consumer advocacy groups.

**APPENDIX**

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**Further reading**

*Telco Services Innovation Radar: 1H13, TE011-001340 (January 2014)*

*Telco Services Innovation Radar 1H13: Analysis and Case Studies, TE011-001345 (February 2014)*

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