

New AT&T™ Smartphone Wireless Pricing

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In June, 2010, AT&T™ announced a new pricing policy for smartphone data service, including Adobe iPhone™ and iPad™, the latter products are available only through AT&T or Adobe™ in the U.S. The option of a single monthly price of \$30 for unlimited service will not be available to new smartphone clients. Current customers can keep their current plan or switch to a new pricing option. The monthly price has been a stumbling block for people who do not need/want the unlimited option. The options are \$15 a month for 200 Mb of data (\$15 for each additional 200 Mb)(about 400 photos or 100 minutes of streaming video) or \$25 a month for 2 Gb of data (\$10 more for each additional 1 Gb). AT&T indicates that, currently, about 65% of its customers use less than 200 Mb and 98% use less than 2 Gb of data transmission capacity a month. Currently, about 3% of AT&T smartphone customers account for about 40% of the data traffic. The traffic created by heavy users slows down transmission speeds and results in dropped calls. It is this latter group that is of concern to the company. The identified price changes are expected to result in an increase in sales revenue.

Focus: Odd-even pricing, pricing lining, Pareto effect (80-20 rule); overfull demand; decision stages and intervening processes model (actual state; desired state; consumer problem; product-level decision: product attribute cognizance, product evaluation, product decision; brand-level decision: brand attribute cognizance, brand evaluation, brand decision; retail-level decision: store attribute cognizance; store evaluation; store decision; post-decisional cognizance; market segmentation (volume); exclusive distribution; patent protection, price elasticity (elastic, inelastic, unitary).

Questions:

1. Explain how the following concepts apply to this situation: pricing, pricing lining, odd-even pricing, Pareto effect, market segmentation (volume), exclusive distribution, patent protection, price elasticity, overfull demand.
2. Explain how the decision stages and intervening processes model applies to this situation.
3. Why would sales revenue increase by switching to the new pricing options? Explain.
4. Based on the proposed pricing changes, do you think that AT&T would lose and/or gain customers? Do you think some current customers will change pricing plans? Explain all.

Note. The facts related to this situation are drawn from the following sources: [1] Lieberman, D., (2010, June 2). New AT&T smartphone users won't get one-price Net. *USA Today*. Retrieved from http://www.usatoday.com/tech/news/2010-06-02-att-smartphone_N.htm [2] AT&T web site: <http://www.att.com>