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PRESS RELEASE

## CIPT study proposes a novel technique for IP transit cost reduction

*A new study proposes a novel technique for cost reduction in the internet protocol (IP) transit market called "CIPT", which may generate significant savings for Internet service providers*

Internet service providers (ISPs) rise to the challenge of providing universal connectivity to an ever-growing number of Internet users, coupled with a rising demand for quality of service, speed and reliability with innovative ways of reducing the costs of increasing IP traffic. A new study proposes a novel technique for cost reduction in the IP transit market called "CIPT", which may generate significant savings for ISPs.

The study "CIPT: Using Tuangou to Reduce IP Transit Costs" was presented at the 7<sup>th</sup> International Conference on emerging Networking EXperiments and Technologies (ACM CoNEXT) in December 2011, held in Tokyo, Japan. It was carried out by Rade Stanojević, Ignacio de Castro and Sergey Gorinsky, all of whom are researchers affiliated to the Madrid-based Institute IMDEA Networks.



According to this research, the Internet is composed of thousands of ISPs (Internet Service Providers) linked in a more or less hierarchical manner to support universal connectivity of Internet users. For the vast majority of these ISPs, universal connectivity comes at the price of IP

(Internet Protocol) transit: typically, a smaller ISP pays a larger provider for the traffic transited in both directions of the link between the two ISPs. In spite of the

steady decay of IP transit prices (per unit of bandwidth), IP transit costs grow, since the traffic volume growth outpaces the decay of the per-unit prices. Not surprisingly, the discontent of the ISPs with the high transit costs has yielded notable innovations such as peering, content distribution networks, multicast, and peer-to-peer localization.

The CIPT study proposed a novel technique for IP transit cost reduction in which the IP transit is purchased in groups. The authors have examined the potential gains of such team buying and show that significant savings can be expected for the team members.

Analyses were performed using real-world traffic data from over 250 ISPs and IP transit prices from several transit providers. The data obtained suggests savings in such group buying teams in the range of 8% to 60%, depending on the factors involved.

The study identified that the two critical properties that enable gains in group buying of IP transit (the sub-additive pricing and 95<sup>th</sup> percentile billing) are ubiquitous in the IP transit market, and have existed from the early days of commercial Internet. What's more, the question of how long IP



pricing retains these properties remains open. As an illustrative example, in the entertainment industry (cinema, sports, etc.), which has offered group discounts for decades, group-discounted tickets still do not manage to constitute a significant proportion of revenues. Although IP transit is different from the entertainment industry in many ways, the paper concludes that it is reasonable to expect a similar outcome for CIPT. Therefore, CIPT coalitions will not dominate the IP transit market nor change the transit pricing structure. However, if buying coalitions become very common or large, their emergence can lead to a modified pricing structure and other new strategic behavior on the Internet.

## ABOUT INSTITUTE IMDEA NETWORKS

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[www.networks.imdea.org](http://www.networks.imdea.org)

## CONTACT INFORMATION - FOR INFORMATION PURPOSES ONLY

We ask you kindly not to publish the following contact details. Thank you for your cooperation.

If you would like more information about this topic, please call or email:

Contact:

Rebeca De Miguel, Operations Support  
Manager  
Tel: +34 91 481 6977  
Email: [rebeca.demiguel@imdea.org](mailto:rebeca.demiguel@imdea.org)

General enquiries:

Tel: +34 91 481 6210  
Email: [info.networks@imdea.org](mailto:info.networks@imdea.org)

Institute IMDEA NETWORKS  
Avda del Mar Mediterraneo, 22  
28918 - Leganés  
Madrid (Spain)