SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 402
SUBJECT NAME: E- BUSINESS AND CYBER LAWS

UNIT-V

TOPIC NAME: METERED VS FLAT PRICING AND INNOVATION VS CONTROL

METERED PRICING:

Metered billing is a pricing model in which you pay for a service only based on the level of usage. For example, the cost of a service might depend on time used, volume of data processed, or CPU cycles—depending on the type of service. You receive a monthly bill to pay for your actual level of usage and nothing more.

Metered billing is an advancement made possible by the increasing number of applications and services being delivered via the cloud. Under a metered-billing pricing model, the cloud-based application must be able to track your usage level and automatically calculate a price that matches your usage level.

Compared to other pricing models such as multi-year licenses, or even traditional pay-as-you-go models, metered billing enables a much higher degree of agility and flexibility in resource use, provisioning capacity on the fly without incurring excessive costs.

WHY METERED BILLING IS IMPORTANT?

One of the great benefits of public-cloud services and cloud-delivered applications is the ability to adjust your usage quickly and easily in response to changing conditions.

An online retailer launching a major sale can spin up new virtual e-commerce servers to handle increasing traffic, without having to pay for that entire capacity full-time.

Metered billing is the natural extension of this trend to service and application billing. It makes it even more efficient to use cloud-hosted applications, since it scales elastically with your workload.

FLAT PRICING:

A flat pricing strategy is one in which the vendor charges the same amount of money for a particular product or service, usually in competition with a vendor who charges based on volume. Flat pricing is a dollar price that is offered to all customers without exception. It tends to be popular with customers and can dramatically improve the sales of a product or service. Flat pricing is also simple to advertise, administer and bill.

The following are illustrative examples of flat prices.

1. **Products:**

An ecommerce site sets static prices for all customers such as $90 for a particular pair of shoes. The firm knows that the data-driven algorithmic pricing practices of its competition are unpopular. They use themes of fair and predictable pricing in their advertising, promotion and brand identity.

2. **Subscriptions:**

A subscription service offers a monthly sample box of artisanal chocolate delivered for $10 / month.

3. **Services:**

A telecom service offers unlimited bandwidth for a fixed rate that's available to all customers.

4. **Postage:**

Postage rates in many countries have a flat rate structure whereby it costs the same to send an envelope down the street as across the country. This makes the system far more convenient than a system of calculating point-to-point charges.

5. **Agents:**

A real estate company in a competitive environment offers a flat rate price such as $3000 for closing a sale. For most customers, this represents a significant discount to the percentage based fees of the competition.

METERED vs. FLAT PRICING:

Continuous Computing

Metered vs. Flat Rate Pricing

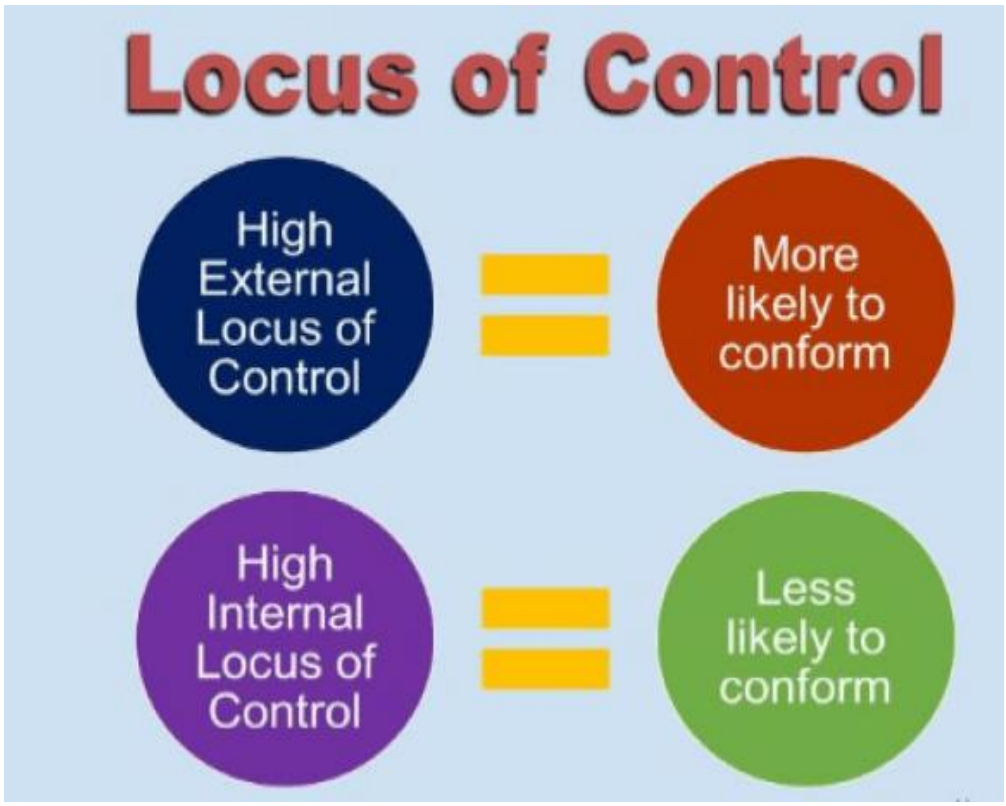
- Metered: $X / MB
- Consumer's viewpoint
  - What's a Megabyte?
  - Want to download song, emails, web page, etc.
  - Lack of control
  - Too complex
- Result:

- Flat Rate: $x / month
- Consumer's viewpoint
  - Voice = Minutes
  - Data = Months
  - In control
  - Get my songs, emails, web, etc.
- Result:

Simplicity Is Key

INNOVATION vs. CONTROL:

Closed Innovation	Open Innovation
The smart people in our field work for us	Not *all* smart people work for us. We need to work with smart people inside *and* outside the company
To profit from R&D, we must discover it, develop it and ship it ourselves	External R&D can create significant value. Internal R&D is needed to claim some portion of that value
The company that gets innovation to market first will win	Building a better *business model* is more important than getting to market first
If we create the most and the best ideas in the industry, we will win.	If we make the best use of internal *and* external ideas, we will win.
We should control our IP, so that our competitors cannot profit from it.	We should profit from other's use of our IP (license out) and we should license in other's IP whenever it advances our business model.
We will own all results from contract research with universities	We will partner with universities to create knowledge and encourage use outside our field



Most of what is done in business management today is about control. Most organizations have a military-style command and control structure showing

hierarchy and reporting lines; although people in business don't have to salute each other.

All this is done in the belief that we can control what happens, explicitly internally and implicitly for the external world. Many companies take the same attitude towards innovation.

There is a bit of a problem with this. Innovation is inherently unpredictable, given that by definition it is something new, even if a company may have done similar things in the past. Even incremental innovation can't be guaranteed to work.

Which brings me to the recent R&D Innovation Excellence Summit in Amsterdam, where I moderated a panel discussion on "Innovation vs. Controlling". It was a very interesting discussion and several key issues were raised.

Innovation, control and efficiency.

Is it possible to have an efficient R&D group if it isn't subject to a high degree of control? In this sense, "control" means both managerial and financial. Every company has limited resource, so efficiency is a must. However, it may get in the way of creativity, so if you're not careful you may become very efficient at launching mediocre innovation.

Does decreasing control stimulate innovation?

It is important here to distinguish between different phases of innovation. Having strict control over the creative phase can inhibit the progression of novel, less familiar options. Devolving decision making can actually be a good thing. Sometimes less experience can actually be an advantage, especially for innovation further from the core.

Shell's Game changer programmer, which has just celebrated its twentieth anniversary, has a principle that the Game changer scientists decide which projects to fund. Not the managers. Not the directors. And it's been very successful.

This doesn't mean that anarchy rules the day; or that every company should adopt the principles of Ricardo Semler, though some of Steve Denning's principles may help.

Once the innovation target has been defined, it's essential to control the implementation phase. Here it's all about getting to market as fast as possible, at the lowest cost and with the best performance.

How do innovators react to control?

It depends. If they are the maverick type, driven by vision and dreams and unbending in their views and principles; then badly. They may find it hard to survive in anybody else's company but their own.

If the innovators are responsible, team-oriented creators and deliverers, then as long as they have some degree of autonomy to get on with what they do best, they

will acknowledge the corporate need to stick to budgets and to stay informed about what is going on.

What degree of control is needed?

In order to enhance efficiency and predictability, sometimes very complicated predictive models are built, primarily to judge whether a certain level of investment is required. These models can be very dangerous; sometimes they take on a life of their own and seamlessly transition from estimates to monumental engravings.

We also often believe too much in our innovation projects, assuming that the competitive advantage on which we started the project will remain in place until after launch. We can be seduced by the different in the absence of the superior. It's tough enough to control the internal environment let alone the external world.

The desire for control can lead to too many processes and reports; too many unnecessary metrics; too much detailed RACI (Responsible, Accountable, Consulted, Informed) replacing common sense; and time wasted both in terms of activity and with speed to market.

Is possible to apply different levels of control?

The Ambidextrous Organization is a model that uses separate groups to address explorative and exploitative innovation. There are clear advantages to this approach allowing different levels particularly of managerial control.

So what should be done to control innovation?

- Set clear boundaries, especially financial.
- Devolve responsibility to people who know what they're doing, and trust them to know when to refer to a higher pay grade. If you can't trust your people, you have even bigger problems.
- Minimize process and bureaucracy; let people get on with work that adds real value.
- Focus on metrics that really matter.
- Encourage the creative phase with a light touch; drive the implementation hard and fast.
- Innovation isn't really an issue of control or not; it's about the right kind of control. And remembering that most companies are not part of the military.