Executive Report #3
Utility Computing and Service Economics
By Apurv Deshpande
Student No:x15001687

Service is an economic activity where the buyer acquires a certain ownership of something. It totally depends on buyer whether he wants a particular service or not. The main characteristics of service is that it should be intangible and insubstantial which means it cannot be exchanged from one service provider to another. It also should involvement of both service provider and consumer and provider.

There are various common market models that can be established as a service:

1) **Add on model**: In add on model numerous extras are add up so that the price that was firstly assumed by consumer gets add up then what they considered initially. An example of this is airline ticket.A price is fixed but the various services like the weight allowance on baggage, paid service for a particular food and drink can let for a price hike.
2) **The Affiliate model**: It is simply based on commission. A provider may not own a certain ownership of product but by then just referring it to a potential consumer he can earn something.
3) **The Auction model:** Here the price is not fixed. Various consumer can assess the price of certain product and bid on it. The consumer with highest bid gets the product.
4) **The Direct Sale model**: Here the provider can directly sell a product to the consumer based on the price he decides. There may or may not be negotiating on the prices it totally depends on providers.
5) **The Franchise model:** An example of franchise model can be to own a particular chain of restaurants. A particular restaurant of the franchise is managed by a particular owner but he has to give a share of profit to the franchiser.
6) **The Low Cost model**: An example of this is paid parking facility. A provider can charge the consumers for a parking that he owns.

There are various pricing models that can be established as service:

1) **Give it away for free,and make money on advertising:** In this model the services are given free to the users and revenue is generated on various advertising.Here a huge investment is needed at the start. An example of this is various social networking sites like Facebook,Twitter.
2) **Free product, bundled with paid services:** Here the product is free but subscription is there for maintenance, training, customisation. An example of this is linux operating system where software can be downloaded free but user can pay if they want training,installation and maintenance of software
3) **The Freemium model:** Here the product can be free for sometime but after that the provider can charge the users for their use. An example of this is Microsoft office. Firstly they provide a trail version to users for a stipulated time say one month but after that they charge users if they want to use the software full-time.
4) **Portfolio pricing**: Here the providers offers a range of products and services to users. The users can use the product and service which is suitable for them.
5) **Volume pricing:** Here the product can be provided to users depending on quantity. The provider can charge a particular value for say 10 units but if you buy 50 units or more then they give a discount of 20%. An example of this is daily food essentials like rice.

Price Determinants:

Price determinant is to get a particular cost of say a product while considering the factors of demand and supply. The various factors that can be considered for price determining are:

1) **Market Segmentation:** Here the decision on various product that are to be sold, various services, cost of operation and types of customer that can use the particular product are made.
2) **Estimate Demand:** Estimation on demand of product can be done by looking at the various factors like competition in market of a particular product, pricing of the similar product in the market.
3) **Market Share:** Exclusive survey of how a particular product are charged by competitors in the market can be done. Various factor like operating expenses and profit margins can be discussed before launching a product. Various strategies for promotion,pricing and distribution can be made before launching a product.

4) **Estimate of costs:** Cost is sensitive to demand. Various marketing factors must be taken into account to estimate cost.
5) **Pricing policies and strategies:** Pricing policies should be made to carry out strategies. Pricing policies should be flexible to the changing strategies and markets . Also while making a strategy the various factors should be taken into consideration like change in consumer demand,economic recession etc.
6) **Price Structure:** Developing the price structure on all the above factors is final step in price determinant

Total cost of ownership(TCO):

Total cost of ownership is financial estimate of direct and indirect cost of product to help owners. There is no general mathematical formula to calculate TCO but a general formula that can be applied to calculate TCO for product is:

(purchase price of product+regular costs thats keep on coming +irregular cost when something happens-income generated on product+ cost of disposal of product- actual income generated on product.)

Revenue management:

Revenue management is application of disciplined analytics that predict consumer behaviour at the micro-market level and optimise product availability and price to maximise revenue growth. The four primary levers that drive revenue Management are:

1) **Pricing:** Here the different pricing techniques and tactics are discussed to increased the revenue management. The prices are decided on the various competitive markets, the market conditions and demand.
2) **Inventory:** Here the factors that are concerned on how the best price of a product can be created depending on its allocation capacity. An recent example of this is Apple iPhone 6 was on sale at 1 euro to gain a fair market share as their product were losing to other mobile companies
3) **Marketing:** An customer survey is done on how they react to the various promotional events to check whether their product is successful or not or is there a need to increase the volume of particular products or to lower the price.
4) **Channels:** Different channels can be used to revenue management. Various retaliators and distributors can be used to increase the revenue management. Different mediums like online shopping or shop at a store can be used to increase the revenue.