

Netflix's Price Elasticity of Demand Strategy Essay

Price elasticity of demand is an economic concept that highlights the price sensitivity of a product. The concept highlights the relationship between the change in price and the total demand of a product or a service. If a slight change in the price of a product or a service is followed by a large change in the demand for the commodity, the relationship is considered elastic. If there is a large change in the price, but a slight change in the demand for a commodity, the relationship between the price and the demand is inelastic. Companies have to evaluate the price elasticity of demand for their products to determine the pricing of the products. Companies need to understand the number of consumers that they might lose or gain with each unit change in price (Foxall, Yan, Oliveira-Castro, & Wells, 2013). This is particularly helpful because it provides the companies with a clear picture of the profit margins and the changes required to attain certain percentages of returns.

One of the companies that have used the price elasticity of demand strategy is Netflix. Netflix has experienced numerous changes in its entertainment services, and its current pricing strategy is a function of numerous attempts to change the price to harness a larger global market share. In 2011, the company increased its prices for various entertainment packages, and this led to a significant decrease in the subscriptions. This revealed that the relationship between the prices of the entertainment packages and the demand for the services is elastic, and the company discovered that a slight increase in the prices results in a large decrease in demand. Similarly, oil companies such as BP and Shell have discovered that a large increase in the price of oil does not necessarily stop consumers from purchasing the normal amount of fuel on a regular basis; hence, the commodity has an inelastic demand. Such products are normally associated with the development of certain policies that limit the prices within a given ceiling. This is because the producers of commodities with inelastic demand might ask for outrageous prices for the commodities.

References

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