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Microeconomics
HUM1003

Digital Assignment
Pricing Strategy - Netflix

Slot : B1+TB1

Name : Kulvir Singh

Register Number : 19BCE2074

Pricing Strategy – Netflix

What is a pricing strategy?

For any commodity or service to be sold in the market, an optimal pricing structure is required to be designed for it so that it can attract the greatest number of customers to buy or consume the item/service and at the same time give maximum profit for the organization.

A pricing strategy is a model or method used to establish the best price for a product or service. It helps you choose prices to maximize profits and shareholder value while considering consumer and market demand.

There are 14 major pricing strategies in addition to some additional techniques :

1. **Competition-Based Pricing**
   Competitor based pricing strategy is one which focuses on the current market value of the goods that are similar to the one which you are selling. Then you can base your item's price based on the price of your rival companies set market price. This strategy does not take into account the cost price of the product or consumer demand.

2. **Cost-Plus Pricing**
   This strategy of pricing focuses mainly on the cost of producing your product or service. It's also known as markup pricing since businesses who use this strategy "markup" their products based on how much they'd like to profit.

3. **Dynamic Pricing**
   Also known as surge pricing, demand pricing, or time based pricing, this pricing strategy is flexible where prices fluctuate based on the market a consumer demand.

4. **Freemium Pricing**
   A combination of the words "free" and "premium," freemium pricing is when companies offer a basic version of their product hoping that users will eventually pay to upgrade or access more features.

5. **High-Low Pricing**
   This pricing strategy deals with a company which initially sells their product at a higher price and then lowers the price as the product popularity drops.

6. **Hourly Pricing**
   Hourly pricing, also known as rate-based pricing, is commonly used by consultants,

freelancers, contractors, and other individuals or laborers who provide business services. Hourly pricing is essentially trading time for money.

7. **Skimming Pricing**
   A skimming pricing strategy is when companies charge the highest possible price for a new product and then lower the price over time as the product becomes less and less popular. Skimming is different from high-low pricing in that prices are lowered gradually over time.

8. **Penetration Pricing**
   Contrasted with skimming pricing, a penetration pricing strategy is when companies enter the market with an extremely low price, effectively drawing attention and revenue away from higher-priced competitors.

9. **Premium Pricing**
   Also known as prestige pricing and luxury pricing, a premium pricing strategy is when companies price their products high to present the image that their products are high-value, luxury, or premium.

10. **Project-Based Pricing**
    A project-based pricing strategy is the opposite of hourly pricing — this approach charges a flat fee per project instead of a direct exchange of money for time

11. **Value-Based Pricing**
    A value-based pricing strategy is when companies price their products or services based on what the customer is willing to pay. Even if it can charge more for a product, the company decides to set its prices based on customer interest and data.

12. **Bundle Pricing**
    A bundle pricing strategy is when you offer or bundle two or more complementary products or services together and sell them for a single price.

13. **Psychological Pricing**
    This strategy aims to target the human mind and is a scheme to boost the sales. The famous 9-digit effect is the most common example of psychological pricing example, where products are set at Rs.999 rather than Rs.1000 .

14. Geographic Pricing
    As the name suggests, this strategy deals with the pricing of a product according to the location or geographical region.

The Netflix Pricing Model and Strategies :

As we have seen above, there are predominantly 14 pricing strategies. From the 14, 6 have been highlighted in yellow. These 6 strategies are being used or have been used by Netflix at some point since the start of this platform. Netflix's marketing and pricing team has either used these strategies atomically or have used a combination in cohesion.

Netflix started out as a DVD rental service in the year 1997. During that period, DVDs were rented from local computer and multimedia stores. Hence, Netflix adopted a Competition Based Pricing Strategy when it initially started out. There business model was also quite unique. They used to home deliver the DVDs, CDs that were ordered by the customers using the then newly founded world wide web. There the local stores which rented DVDs faced a huge competition from Netflix and soon started to lose a huge quantity of customers.

The Netflix logo (1997) and the rental service used Competition Based Pricing Strategy.


The competition of Netflix in the 90s was DVD rental stores.

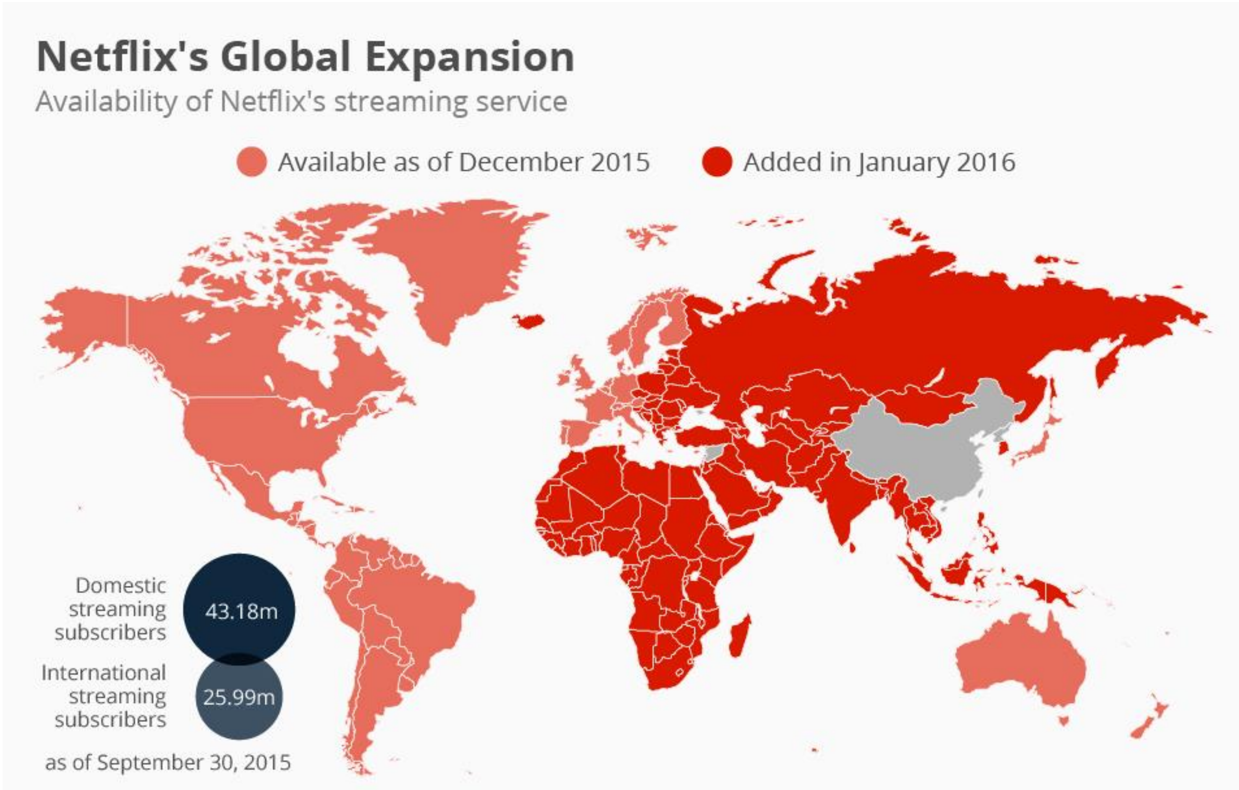
Now when we enter the 21st century, Netflix was already the next big thing in the multimedia industry. In the year 2007, Netflix made a revolutionary transformation of their business model. From rental service of DVDs, it switched to streaming media service. The advantage that Netflix

got was that it was the first company in the market to introduced video on demand. The other competitors such as Apple and Amazon were a year late. This allowed Netflix to use Dynamic Pricing model. The demand increased as people wanted to explore this new technology in the market and therefore Netflix fluctuated the prices according to the demand increase.
This phase also had Bundle Pricing strategy in play since Netflix had not fully eradicated the rental service.

The 2003 Netflix website.

Then comes the Netflix that we all know today. 2013 – 2014 onwards, Netflix had established as one of the most lethal and effective business in the context of OTT and video on demand platform.

The business expanded and went global. This led to the introduction of Geographic Pricing Strategy. As we have seen the price of Netflix varies from country to country.



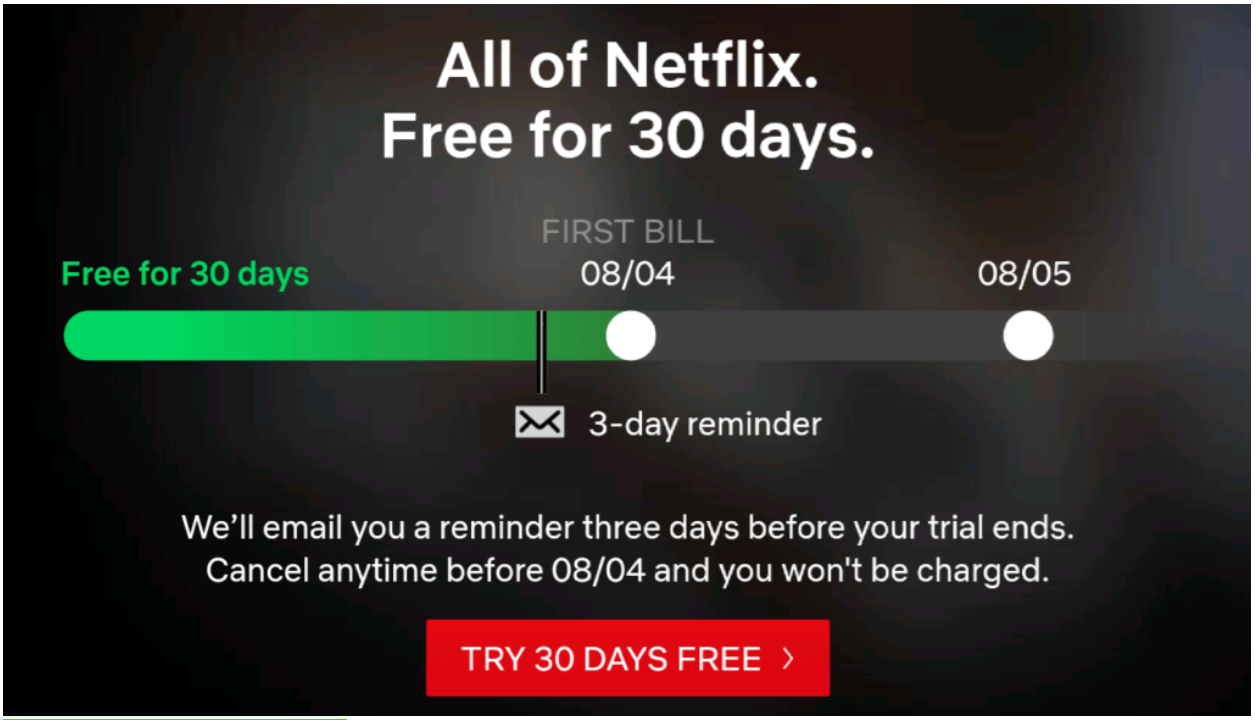
The Global expansion of Netflix gave rise to Geographic Pricing Strategy

The company incorporated Psychological Pricing as the customer base grew. They started pricing their services using the famous 9-digit effect. This saw a surge in the people buying Netflix subscription.

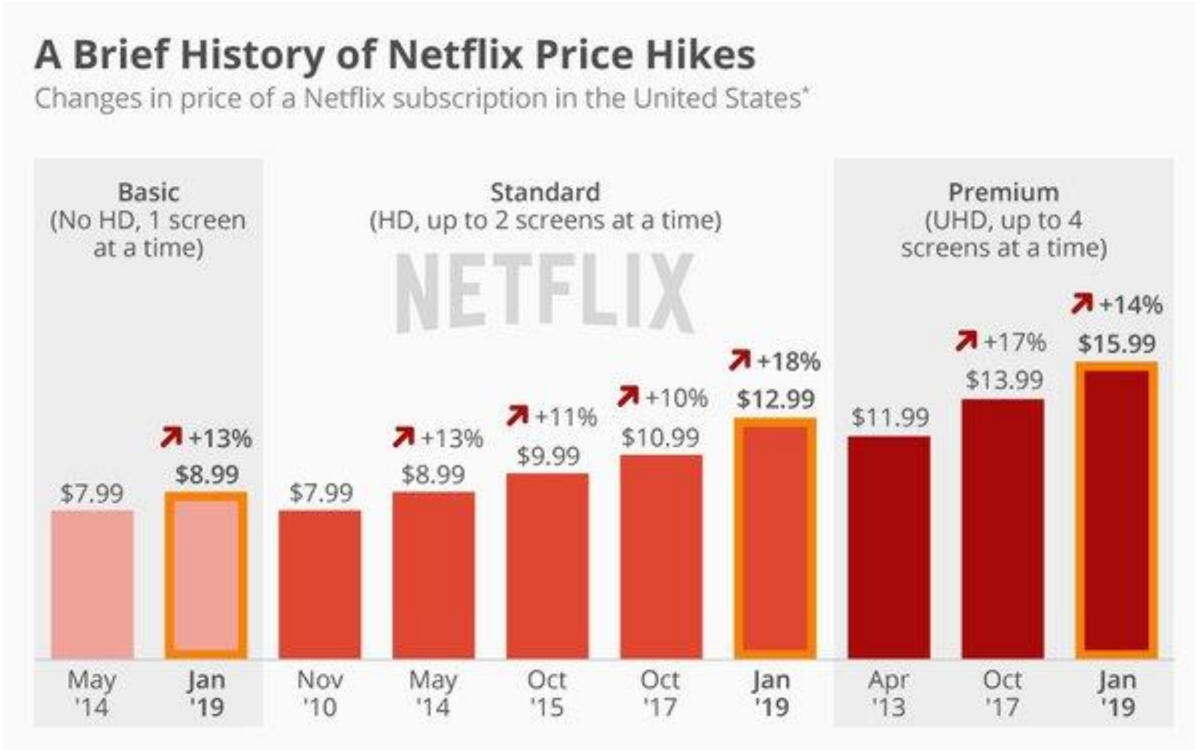
	Basic	Standard	Premium
Monthly price after free month ends on 2/8/20	$8.99	$12.99	$15.99
HD available	✕	✓	✓
Ultra HD available	✕	✕	✓
Screens you can watch on at the same time	1	2	4

Psychological pricing strategy – 9 digit effect

Whenever Netflix started its venture in a new country or a new location, it used a combination of Geographic Pricing, Psychological Pricing and most importantly the Freemium Pricing Strategy. When Netflix was first introduced in India, it supported a 1 month free trial feature. This is a perfect example of Freemium Pricing Strategy where the company offered a basic trial of the product and then charged people. Once Netflix was properly established in India, it stopped the free trial strategy.

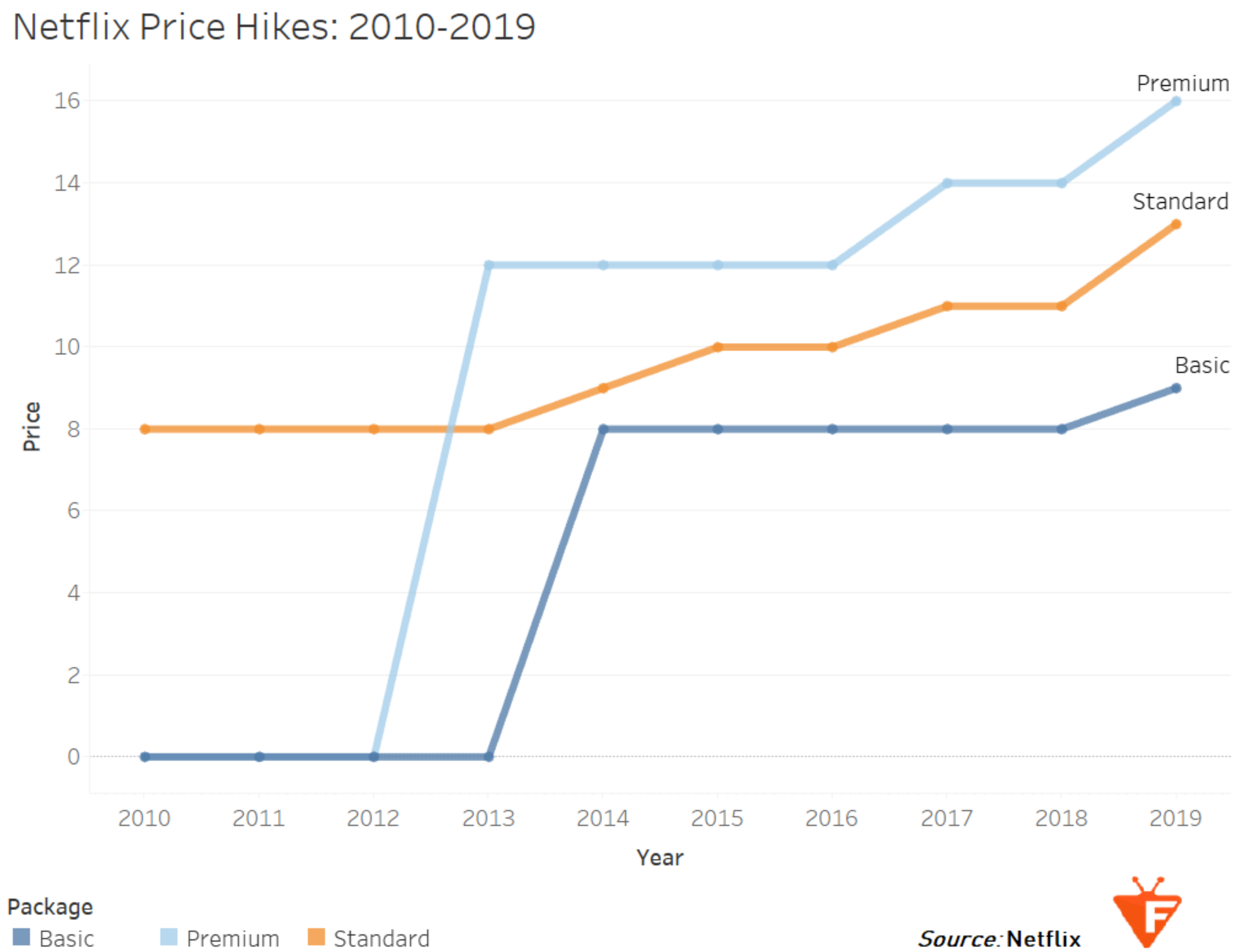


Freemium Pricing Strategy



Now as the popularity of Netflix increased across nations, the company introduced the Dynamic Pricing Strategy once again. In all honesty, the company could never afford to completely stop using this strategy as it would not make profit and become the leading industry in OTT services.

Lastly, a unique and unorthodox take on the pricing strategy of Netflix would be the latest Bundle Pricing Strategy. In this approach, Netflix has tied up with various data service providers and provide their service as an offer. For example, in India, there is a Netflix subscription option with Airtel, JIO, Vodafone (telecom company). This strategy benefits 2 commodities as seen in Bundle Pricing Strategy but the only catch here is that the goods are of different organizations. However this strategy has seen a rise in the customers for both companies and hence is an effective strategy.



As a result of the demand, competition and various other global economic factors, Netflix has adopted a large number of pricing strategies and varied its prices accordingly. A good representation of the same can be seen the above graph.