

## Literature Review

In this section, we would like to give a picture on some existing works related to the price discrimination in subscription markets including; telecommunication, academic journal, and newspaper, in order to receive the detail about the strategies they employed and also their purposes of conducting such price policies in other market since the study about pricing model in video streaming industry is quite insufficient.

As the Ultra HD resolution option and maximum number of screen of 4 are only available on Premium package, it makes people subscribe this highest package even though they might need only either the maximum number of screen to share the account or the best resolution quality they can get from Netflix's streaming. From this fact, it reflects that Netflix restricted the quality of screen's resolution on each package. The quality-discriminating behavior, when "supplier offers a good or service in different quality levels, with the marginal price for each quality level being a constant." (Oren et al., 1982) can be found in other industry as well. In the telecommunication market, Oren et al. (1982) explained that it is favorable for both suppliers and consumers and leads to the market efficient as they illustrated the comparison of consumption pattern, supplier's net revenue, and consumer surplus when there are multiple qualities option and when there is only single quality option.

The price discrimination in the subscription market is largely found for the academic journal as "the price premium of a journal in the library market is disproportionately larger than that in the individual market" (Zheng & Kaiser, 2012) and another similar study of Joyce and Merz (1985) which examined the practice of price discrimination in academic journal between institutional and individual subscribers. For daily newspaper industry, the price discrimination is not only applied to the consumers but also the advertiser, according to Ray (1951), the

newspaper had charged different group of advertiser different rates for advertising space as well. This reflects that price discrimination is being adopted in many aspects in many industries.

According to Cassady (1946), the conduct of price discrimination is classified into 3 different methods depends on techniques applied in practice we observed that “indirect method” has similarly explained the most to our Netflix’s case. The meaning of indirect method has been stated as when “the product is offered at different prices (the low and high-priced offerings ordinarily being available to all)” (Cassady, 1946). Which in our case, all the packages have the different price and being available for all subscribers depends on the variation in options. The key findings about the purpose of price discrimination had been examined by this referring study which stated that “to obtain the highest possible net profit”, “for the purpose of meeting the competition only”, and “long-run sales promotional purposes” (Cassady, 1946).

Likewise, in the newspaper industry, the price discrimination had been mentioned in term of its profitability for the suppliers due to the variation in the elasticity of demand among different group of buyers (Ray, 1951) and “it is always more advantageous for monopoly to breakdown sales using kiosk and subscription sales” (Gabszewicz & Sonnac, 1999). For this evidence, we might apply such context into our case study that there might be the possible profitability from discriminating the quality of the screen plus the number of the screen to capture the consumer surplus as much as possible.

However, we found that, the study in the topic related to the pricing strategy of Netflix is still unexplored. The existing studies that included Netflix’s online streaming service in their topic are neither about its pricing nor its quality of resolution. For example, Yan et al. (2017) has evaluated Netflix’s personalized recommendation system whether it is satisfied to their consumers or not, and they found the difficulty to answer this question due to the lack of

available data and studies. Despite the evidence of Yan et al. (2017) that emphasized the limitation of data that we could have reached and applied to our study, we would collect the data about consumer's preferences toward Netflix's service directly through our survey.

## References

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