

Price elasticity of demand for logistics and transport



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Abstract: This article mainly use supply and demand curve model and elastic model to analyze and interpretation the existence of off and peak seasonal phenomenon of express delivery logistics industry in China, especially discuss cause and effect of phenomena such as full warehouse, freight rates, express delivery company's competitive model transformation in the holidays. depending on the model and Phenomenon make recommendations solutions. Key words: Demand Price Elasticity express delivery transportation

1. Brief introduction

Third-party logistics companies for the provision of goods delivery services will charge a return to compensate for costs incurred in the distribution process, and as a rational enterprise will pursue profit maximization. [1]Price elasticity of demand for Logistics and Transport is referring to degrees of the change in demand caused by changes in prices to a certain extent in a certain period of time. [2]

2. Model description

2. 1 Supply and Demand Curve Concept: Q: means quantity, Quantity can mean either quantity of freight per trip or the frequency of trips over a fixed amount of freight

P: means price of goods or service. D: demand S: supply All else equal, as goods' or service' price falls, the quantity of demanded in transportation rises ; vice-versa. And the quantity supply decline ; vice-versa.

2. 1. 1Elasticities [pic] Ed -Price elasticity of demand for Logistics and Transport Q -Quantity of goods demanded Z -One of the factors that influence The demand of certain goods for transportation ? Q -Quantity changes of the demand Of certain goods for transportation ? Z -Quantity changes of factor Z Different Ed of goods will influence demand and supply curve.

Under a elastic demand ($E_d > 1$), an increase in supply of transport services, the freight rate falls by a lesser amount along the more price demand. Under a inelastic demand ($E_d < 1$), an increase in supply of transport services, the freight rate falls by more than the quantity of demand increases along the more price demand.

3. Actual business phenomena(Case study) Every year so many online retailers hold promotional activities in public holiday will cause a rapid increase of business in Express delivery, but it also cause some problems such like full warehousing and goods transportation delay.

In 2011, Taobao Mall's " Double 12" discount activity attracted many customer places order, but many customers complained about not receiving the goods on time, and some people even said that their desire to shopping have reduced a lot. In the business peak season, Express delivery through the strengthening of transport to improve the efficiency and attempted to raise fees to strengthen market regulation. For example: STO choice <https://assignbuster.com/price-elasticity-of-demand-for-logistics-and-transport/>

increased by 1 RMB in November. A survey shows that the most of customers like low prices and high efficiency of the company when they choose express delivery.

For long-term use Express customer, they prefer high-efficiency, higher prices of the company. Currently on the market the delivery costs are low, many courier companies consider change price competition from the current transition to service competition in future. 4. Analysis and discussion of the case

1. For customers: online store markdowns, then a large increase in the number of orders ($E_d > 1$), leading to sharp increase in the amount of the logistics business, and some customers give up shopping because of the speed of logistics problems, these phenomena shows these types of goods are elastic goods.

The logistics company's services as invisible elastic goods, when choosing between different company in China, the lower fees, the more orders. The greater the number of substitutes, the more price-elastic will be the demand for any particular mode and thus the more sensitive shippers are to freight rate changes. Some express delivery companies through increases price, does reduce the order. But when facing long-term use Express customer who do not mind the price increase, this idea is Useless. For them, the price elasticity is relatively small.

2. For express delivery company: The transportation industry sizes itself to demand because service cannot be hoarded or stockpiled, so they don't know when and whether the orders will change clearly. When goods are too

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much to influence transportation and logistics and company long-term business, by raising the price can adjust market demand in short term (provided goods are elastic), but after raised the price, I think it will not change in future, even if it will affect the sales in off-season.

3. A lot of substitutes on the market led to lower delivery costs.

Observe the Supply and Demand Curve, the price closer to 0, the closer an infinite quantity. But we know that the cost of transport determine only a certain price can make a profit. Through price competition can increase order in short term, price increasing has its disadvantage, more customers both like the high efficiency and low prices, illustrating the need to improve the transport efficiency (service levels).

5. Key findings and solutions From what is explained above, elasticity of demand is an important factor affecting logistics and transport, price will influence the elasticity demand very much.

In the case, the general customers when buy goods which are elasticity demand, will greatly affect by the price , low prices lead to high demand. While, because of the slow problem in logistics of the delivery, making the original demand for goods is not a strong customer choose to give up. On the other hand, to long term customers, services are basically no flexibility, so even if the company chose increase prices, and slow speed , they continue to use the express delivery.

Secondly, due to the high prices will reduce demand. In the business off-season periods, such as the Spring Festival, the company can focus on

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customers who has less flexibility demand, and arrange part-time staff to reduce costs, easing the pressure. Thirdly, A price-elastic demand suggests a market that is more competitive. The domestic courier attracting customers through low prices, but their services are poor, and service-related complaints ranked first.

When prices are below cost, need to continue to profit by restructuring, quality service is one of the factors affecting customer choice, the SF through the practice to increase prices and improve service express delivery, it means slipping among the supply curve actually, so it can increase the quantity. 6. Conclusions Through the case analysis and discussion about the model, we have come to the market demand elasticity theory is of great significance. Whether it is the general production operators or government, only can grasp and use as long as the market demand elasticity.

Then will improve their production and management decision-making or policy measures, scientific decision-making. Make decrease alkaline blindness decision. Extension speaking:

1. The general production operators, can take advantage of the market elasticity of demand for production and management of scientific decision-making
2. Monopolistic the production operators, often using market elasticity of demand for more income.
3. Government can take advantage of market elasticity of demand to develop scientific and rational normal tax revenue. When facing warehouse

full, cargo slow or even paralysis of the system at holiday, express delivery company needs to do more than just increase price. I think this is a passive, even if the service is can not warehousing and inventory, but personal recommendations the courier companies can be based on the elasticity of demand , supply and demand curves, use of network platform, communicate with other third-party (Tmall) in advance, make the development of expected business growth, or sign a contract, own a stable customer base.

Enhance the competitiveness through quality service.

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