

Reservation Price in Marketing

To be presented at

Frankfurt Summer School on Digital Pricing

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Conjoint Analysis in Pricing Studies



Asus



Acer

Processor: AMD 2,8 (2)

Intel M 1,5 (1)

RAM: 256 MB (4)

512 MB (8)

Price: 1078,- € (-3)

1198,- € (-5)

=3

=4

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Asus

Processor: AMD 2,8

RAM: 256 MB

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Processor: AMD 2,8

RAM: 256 MB

Price: 999,- €



Acer

Intel M 1,5

512 MB

1198,- €



Outline of Research Field: Price Estimation

Conjoint Analysis does not incorporate a decision rule.

Price

The amount of money charged for a product or service, or the sum of values that consumers exchange for the benefit of having or using the product or service¹.

Including price in conjoint analysis violates the concept of price, because price is assigned a utility rather than being an exchange rate

¹ Kotler, P. and Armstrong, G. (2001). Principles of Marketing., p. 371.

Outline of Research Field: Price Estimation

Suggestion: Exclude price from Conjoint Analysis and map price onto utility scale in additional interview scene¹.



Asus

Processor: AMD 2,8

RAM: 512 MB

Price: 1249,- €

Accept offer: yes no

¹ Breidert, C., Hahsler, M., Schmidt-Thieme, L. (2004). Proceedings of the GfKI.

Outline of Research Field: Price Estimation

Suggestion: Exclude price from Conjoint Analysis and map price onto utility scale in additional interview scene.



Asus

Processor: AMD 2,8

RAM: 256 MB

Price: 1099,- €

Accept offer: yes no

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Concept of Reservation Price

The reservation price is the highest price that a given person will accept and still purchase the good. In other words, a person's reservation price is the price at which he or she is just indifferent between purchasing or not purchasing the good¹.



PalmOne
697,- €

¹ Varian, H. (2003) Intermediate Economics – A Modern Approach, p. 4.

Concept of Maximum Price

A products "economic value," then, is the price of the customer's best alternative (called the reference value) plus the value of whatever differentiates the offering from the alternative (called the differentiation value). Differentiation value may have both positive and negative elements... Economic Value is the maximum price that a "smart shopper," fully informed about the market and seeking the best value, would pay¹.



1699,- €
(1198,- €)

¹ Nagle, T. and Holden, R. (2002) The Strategy and Tactics of Pricing, p. 75.

Treatment of Reservation Price in Marketing

... each customer has a maximum price they are willing to pay for a given product which equals the product's value to the customer. This price is the consumer's reservation price for the product. The consumer compares her reservation price for each product with its purchase price and chooses the product that offers the largest differential. (Kalish, S. and Nelson, P. (1991). A Comparison of Ranking, Rating and Reservation Price Measurement in Conjoint Analysis, *Marketing Letters*)

The reservation price is the maximum price a consumer is willing to pay for a certain good. Since the reservation price is the upper limit of the acceptable price range for a product, it corresponds directly with the perceived value of the good. If a consumer purchases a good at a price below the perceived value he or she realizes a consumer surplus. (Balderjahn, I. (2003). Handbuch Preispolitik, chapter *Erfassung der Preisbereitschaft*, p. 389)

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2 € is twice as good (much) as 1 €.

The composite good consists of all other other purchase alternatives other than the good in question¹.

Marginal utility from consumption of the composite good does not decline. Reason: There exist an unlimited number of composite combinations with same (highest) utility and same (best) price.

Linear relationship is a common assumption in multi-attribute utility theory, e.g., the use of a vector model. (Green, P. & Srinivasan V. (1978) Conjoint Analysis in Consumer Research: Issues and Outlook, *The Journal of Consumer Research*)

Practitioners use of interpolation heuristics (Orme, B. (2001). Assessing the Monetary Value of Attribute Levels with Conjoint Analysis: Warnings and Suggestions. *Technical report*, Sawtooth Software Inc.)

¹Varian, H. (2003) Intermediate Economics – A Modern Approach, p. 21.

Linear Relationship between Utility and Price

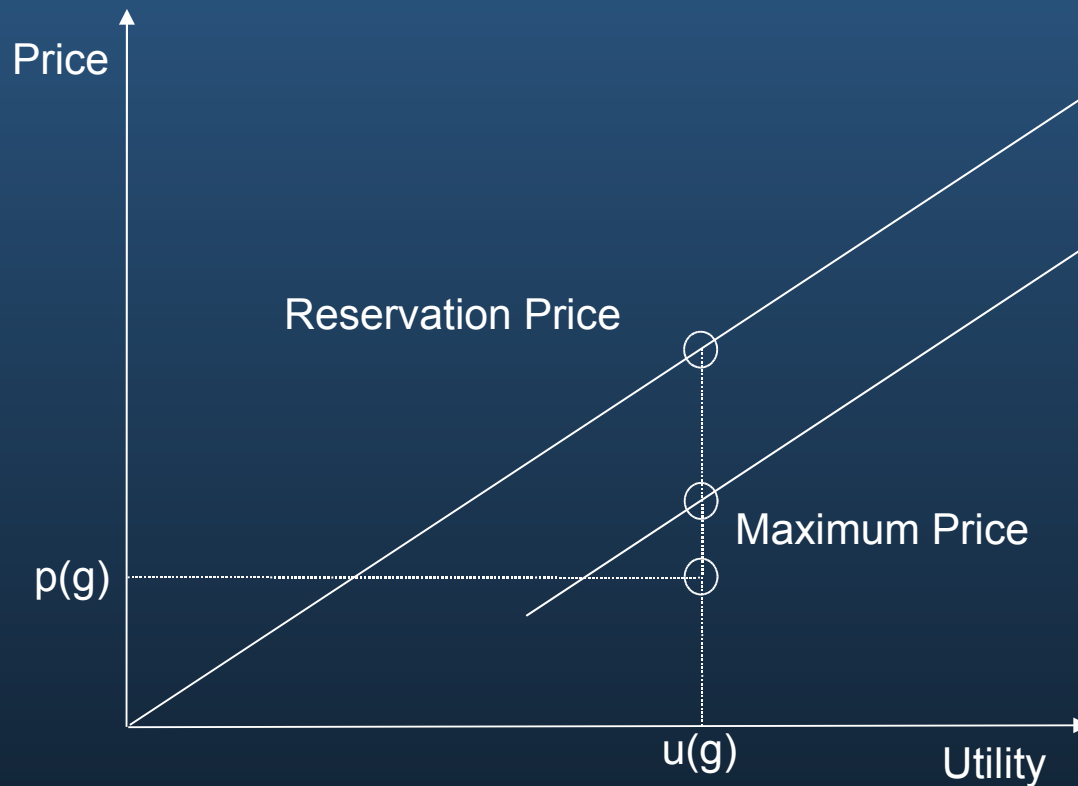


$p(g)$:= price of good g
 $u(g)$:= perceived utility of g



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Linear Relationship between Utility and Price



$p(g)$:= price of good g
 $u(g)$:= perceived utility of g



999,- €
(1198,- €)

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