Reservation Price Estimation
by Conjoint Analysis

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Abstract. Though reservation prices are needed for most business simulation processes, e.g. product line optimization and product bundling, it often turns out to be difficult to measure them as exactly as necessary. In the past the major approach for this task has been to use data acquired by conjoint analysis. The common practice is to let price enter the interview as an attribute and estimate part-worths for predefined price levels (Kohli & Mahajan, 1991; Jedidi & Zhang, 2002). Reservation prices for different products are estimated by assigning prices based upon these part-worths such that the respondents are assumed to be indifferent between buying and not buying the product.

From an economic point of view we discuss whether price can be constructed as an attribute in conjoint analysis, as is common in pricing studies (Green & Srinivasan, (1990)). We propose an alternative elicitation and estimation procedure for reservation prices which is grounded on economic theory. This procedure can be used as an additional interview scene in combination with conjoint analysis.

References