

The Strategy of One Firm Offering a New Product with Willingness to Pay Elicited in the Lab

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Abstract: This paper analyzes the strategy of one firm offering a new product with willingness to pay (WTP) for both regular and new products elicited in the lab. By using WTP from an experiment, surpluses for consumers choosing between regular and new products are inferred and lead to an estimated demand for the new product. From this demand, we show how to estimate the *ex ante* price of the new product along with the *ex ante* level of advertising selected by a firm for informing consumers. The socially-optimal level of advertising maximizing the welfare is also determined. The previous methodology is applied to two experiments with food. The first example uses consequential WTP coming from one real-payment experiment, while the second example uses hypothetical WTP coming from one stated preference experiment. For a same advertising technology, the estimated levels of advertising highly differ between these two experiments. For each experiment, the socially-optimal level of advertising is significantly higher than the private level.

Keywords: New products, profit, willingness-to-pay, advertising, lab experiments.

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