Valuation of Patented Product Features

By

Greg M. Allenby, Jeff Brazell, John R. Howell, and Peter E. Rossi

ABSTRACT

Ultimately, patents have value to the extent to which the product features enabled by the patents have economic value in the marketplace. Products which are enhanced by inclusion of patented features should generate incremental profits. Incremental profits can be assessed by considering demand for products with patented features and contrasting that demand to demand for the same product without the patented feature. Profit calculations must be based on valid estimates of demand as well as assumptions about how competitive forces affect demand via computation of market equilibria. A conjoint survey can be used to estimate demand. Recently, conjoint methods have been applied in the patent setting but the measures of value used are purely demand-based and do not involve equilibrium profit calculations. We illustrate our method using the market for digital cameras and show that current methods can overstate the value of the patent.