“VALUATION OF PATENTED PRODUCT FEATURES”

Some comments by Ross Levine

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WHAT DO WE LEARN?

Lots

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What do we learn from this paper?

- We learn about a method for designing an experiment to obtain information about the demand for particular components of products.

What do we learn from this paper?

- A well-designed conjoint survey simulates the marketplace purchase behavior of individuals.

- In the experiment, product features—potentially even hypothetical product features—are manipulated and the subjects in the experiment choose from among hypothetical products defined by these product features.

- In this way, the experiment teases out information on the preferences of potential purchasers concerning potential product features.

What we learn.

- This method is crucial in marketing. A firm might ask: What would be the change in profits from adding particular features to its product?

- This method could also prove valuable in assessing the value of patents.

- What is the value of providing a monopoly on the application of an idea—via a patent—on a feature in a product?

WHAT I DO NOT THINK WE LEARN

Yet

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What I am not sure we learn yet.

- Is this method for obtaining information about the preferences of potential purchasers concerning potential product features better than other methods?

- Or, more specifically, what are the conditions under which conjoint survey estimates of demand for features are better than more traditional industrial organization (IO) methods? (Berry, Levinsohn, and Pakes, BLP)

What I am not sure we learn yet.

- My understanding of Berry, Levinsohn, and Pakes

- They present a method for obtaining estimates of demand for particular product features from widely available observational data.

- They integrate these elements of the “demand side” with the “supply side.” by estimating cost parameters for an oligopolistic differentiated product market.

What I am not sure we learn yet.

- My understanding is that the current paper:

- Provides a new method for obtaining estimates of demand for particular product features.

- Uses the rest of the framework developed by BLP to complete the process of estimating the value of a product feature.

Thus, I would like to know:

- Under tried and true conditions, when BLP is believed to provide work well, does using the conjoint survey method to obtain the demand side elasticities yield similar results?

- Can research provide empirical guidance on the pros and cons of the two approaches and when one will be a more cost effective strategy?

THE CONJOINT SURVEY

I am curious about …

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Question about the conjoint survey

- Is the sample relevant for actual demand?
- Confidence of outcomes? (standard errors)
- How does assess whether people can provide valuable information based on hypothetical features in hypothetical products?
- What would lead one to reject his approach? How do we assess its reliability?

A CONCEPTUAL QUERY

Just seeking clarification

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Economic value

- I was a little confused at times about the paper's statement that the economic value of a patented feature should be the incremental profits that accrue to the firm that practices the patent by incorporating the patented feature.

- Lets ignore the impact of effectively protecting patents on the creation of new ideas.

- Lets just focus on the value of a patent and the features.

Economic value

- There is a difference between the “feature” and “patent.”
  - The feature is a set of instructions for augmenting a product or creating a totally new product.
  - The patent involves the degree to which the state provides a monopoly on the use of those instructions.
- The value of the patent on the instructions for creating the drug is what the current paper is seeking to estimate
- The value of the instructions is different.
  - Let there be no legally imposed monopoly to using the instructions.
  - Then, is the economic value of the instructions equal zero: the incremental profits accruing to perfectly competitive firms?

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Economic value

- Perhaps, all of this is obvious. If so, it would have helped this reader if it had been clarified in the paper.
- Perhaps, I got it wrong. If so, please tell me where I went wrong.

THANK YOU PETER

I learned lots from reading this paper.

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