

# Patent Infringement: Proving Customer Demand ... or a Lack Thereof<sup>©</sup>

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An expert witness in hundreds of litigated matters, Jacob Jacoby's treatise *Trademark Surveys*, commissioned by the ABA, will be published by Thomson/West in 2013. His invited presentations on litigation surveys include those given at INTA, AIPLA, PLI, several bar associations and at workshops for U.S. District Court judges and magistrates.

With case law on patent infringement having evolved to the point where patentees now must prove that the patent-related feature is the basis for customer demand, this article has two objectives. The first is to discuss the pros and cons associated with several approaches for adducing such proof and, in the process, describe a simulation procedure used in three recent cases to achieve out-of-court settlements. The second objective is to illustrate how defendants in such matters can be proactive in proving a lack of customer demand.

While the history of consumer surveys being proffered as evidence in trademark litigation dates back more than 50 years, the introduction of consumer surveys in patent litigation is a considerably more recent phenomenon. And whereas more than 1,000 consumer surveys have been introduced in hundreds of trademark cases, examination of case law suggests perhaps 20 to 30 consumer surveys have thus far been introduced in patent litigation. This is bound to change, if for no other reason than rulings such as those by the Federal Circuit in *Lucent Technologies et al. v. Gateway et al.* In that matter, the Federal Circuit held: "For the 'entire market value' rule to apply as the measure of damages for patent infringement, the patentee must prove that the patent-related feature is the basis for customer demand of the accused product"<sup>2</sup> [italics supplied].

How does one go about proving customer demand — or a lack thereof, especially for a feature? One approach is to rely upon circumstantial evidence, such as the dollar amount devoted to advertising and promot-

ing the product or its contested feature. However, since advertising and other promotional efforts can be ineffective, there is no one-to-one translation, so that dollars spent is not necessarily indicative of having generated customer demand.

A second approach would be to compare sales of the product before introduction of the disputed feature with sales afterward. However, if the newer version of the product contained additional new but uncontested features, or if introduction of the newer version was accompanied by increased advertising or other promotional efforts, parsing out the impact attributable solely to the disputed feature would be problematic.

A third approach to proving customer demand, or lack thereof, would involve traditional survey research. One variation would be to ask *past* purchasers questions regarding the factors that led them to make their purchase. However, asking questions a point in time after the item has been purchased is likely to generate answers subject to faulty memory. Considerable research suggests this would be especially so for surveys conducted weeks, months or years after the purchase. Research designed to verify the accuracy of respondent memory by comparing answers to survey questions against records of actual behavior yields findings that tend to be quite sobering. As but a few examples, consider the following.

One study involved "1,500 people who were discharged from a hospital during the previous year. Nearly all people remembered the hospitalization if asked about it within ten weeks of the discharge date, but the percentage dropped over time, so that less than 90% remembered it if asked a year later."<sup>3</sup> In another study, "the proportion of crime victimizations correctly reported [by the victims themselves] in the actual month of occurrence (according to police records) varied from .70 for events 1 to 3 months prior to the interview to .46 for events 10 to 12 months earlier."<sup>4</sup>

Certainly, being a crime victim or being hospitalized are considerably more momentous and meaningful events than is whether

a certain product feature was or was not considered at the time of purchase, weeks, months or perhaps even years earlier.

Yet another reason why asking past purchasers regarding the role certain product features played in their purchase decisions generally yields unreliable answers is that their answers tend to be colored by their post-purchase experiences. Although a product feature may not have played a role in their pre-purchase deliberations and decision, positive post-purchase experiences can cause them to overestimate the value of the feature, to the point where they believe they must have considered it prior to purchase. The reverse effect due to experiencing a disappointing feature is also possible.

If asking questions of past purchasers can be expected to yield unreliable answers, what about asking *prospective* purchasers regarding the factors they think will influence their purchase decision? Unfortunately, this approach can generate other problems. First, prospective customers may not be aware of some product features until they begin seriously considering whether to purchase the product; hence, they could not possibly report on the materiality of these features to their purchase decision. Moreover, research shows that features customers say will be important when reaching their decision often turn out not to weigh heavily — or even be considered — at time of purchase. Consider what one of the most prominent research psychologists of the Twentieth Century wrote:

We have mentioned several times in this discussion of the information-processing steps in decision making that the person is often unconscious of what he or she is doing and when explicitly questioned is unable to give an adequate explanation of how the information was handled or the decision was reached. At other times, the person can report how the decision was arrived at, but analytic techniques allow us to determine that in actuality the [information] processing that the person describes (presumably in good conscience) was not actually employed.

Even people in highly rational enterprises who make decisions of great importance (such as investment counselors advising a client on the appropriate make up of a stock portfolio ...) are often unaware

of the bases for their own decisions or, still worse, think they use bases for deciding that they actually do not employ..... Those interested in the bases for consumer behavior should be familiar with this literature in order to determine how one can check the extent to which one can take at face value the consumers' self-reports of bases for decision, and how one can test alternative hypotheses about the bases of choice.<sup>5</sup>

A fourth approach to proving customer demand, or lack thereof, involves employing behavioral simulations such as were used in two recent cases, one a patent matter with hundreds of millions of dollars at stake,<sup>6</sup> the other a class action with tens of millions at stake.<sup>7</sup> These simulations entailed placing prospective purchasers into a situation which had them decide whether or not to purchase the product(s) at issue. In reaching their decisions, they were able to acquire as much or as little information as they wished from a pool of information that contained descriptions of the product's features, including the disputed feature. When crafted properly, such research enables one to identify, with precision, which information and features prospective customers actually do consider and the degree to which they believe each item of information they acquired affected their purchase decisions.

By way of illustration, consider the following exhibit from *Polaroid Corp. v. Hewlett-Packard Co.* Of the 28 types of information available describing the print-

ers in question that were made available to the respondents, Feature P was the focus of the dispute. As the red arrow indicates, few respondents (7%) acquired information regarding Feature P and, once having acquired that information, said it had an important impact on their decision making. Having demonstrated a lack of customer demand for the disputed feature, the survey proved instrumental in defendant achieving a favorable pre-trial settlement. Similar findings and outcome occurred in *Taylor et al. v. JVC Corp.* Though the burden of proof rests with plaintiff for proving damages, when the contested feature is found to play an inconsequential role in driving customer demand, the findings can be used to substantially limit a defendant's exposure.

Rather than relying on past purchasers' fallible recall of the features they did consider or prospective purchasers' thoughts regarding the features they thought they likely would consider when the time to reach a purchase decision arrived, the simulation approach measures actual information acquisition behavior, identifying the features customers actually do consider (and ignore) while reaching a purchase decision. Given their realistic nature, such simulation surveys are likely to be more readily understood and accepted by triers of fact, especially juries, than are convoluted damages theories.

A third case provides additional perspective. At issue in *Munchkin, Inc. v. The First Years, Inc., et al.*<sup>8</sup> was whether patent markings play a material role in consumer purchase decisions for disposable infant and toddler feeding products, such as plas-

tic dishes, bowls and sippy cups. Of the 21 types of information made available for the plastic bowls being tested, price ranked first as the most acquired type of information (by 81.5% of the respondents), brand name ranked twelfth (acquired by 37.6% of the respondents) and patent information ranked last (acquired by 9.9%). The matter was settled out of court. What makes the simulation in this matter interesting is that, while price and brand name information usually rank among the topmost types of information acquired, in this instance, brand name ranked twelfth, something understandable given that the product was an inexpensive, disposable item. In scientific parlance, this finding provides a degree of face validity.

While the principal objective of this article has been to describe a simulation procedure that can be employed by patent infringement plaintiffs to prove that the patent-related feature at issue is the basis for customer demand when that indeed is the case, it also illustrates how defendants in such matters can be proactive in proving a lack of consumer demand. Because the simulation approach primarily relies not upon what customers *say*, but upon what they *do*, the approach is viewed as providing strong, direct proof regarding customer demand.

## ENDNOTES

1. Mechants Council Professor of Consumer Behavior and Retail Management, Department of Marketing, Leonard N. Stern School of Business, New York University.
2. *Lucent Technologies, Inc., et al. v. Gateway, Inc.*, et al. 580 F.3d 1301 (Federal Cir. 2009)
3. Elizabeth F. Loftus, K.D. Smith, M.R. Klinger & J. Fiedler "Memory and Mismemory for Health Events." In Judith M. Tanur, ed., *Questions About Questions: Inquiries into the Cognitive Bases of Surveys*, 1992, 102-137, at 102.
4. Elizabeth Martin, The Question-and-Answer Process; In Charles E. Turner and Elizabeth Martin, eds., *Surveying Subjective Phenomena*, 1984, 279-302, at 296.
5. William J. McGuire (1976) Some internal psychological factors influencing consumer choice. *Journal of Consumer Research*. 2 (4), 303-319; at 313. Also see: Richard E. Nisbett & Timothy DeCamp Wilson (1977) Telling more than we can know: Verbal reports on mental processes. *Psychological Review*, 84:3, 231-259.
6. *Polaroid Corporation v. Hewlett-Packard Company*, U.S.D.C. D. Delaware, C.A. No 06-738 (SLR) (2007).
7. *John Taylor, et al. v. JVC Americas Corporation*. U.S.D.C. D. New Jersey, Civ No. 2:07 Civ. 4059 (FSH/PS).
8. *Munchkin, Inc. v. The First Years, Inc., et al. Learning Curve Brands, Inc. and Does 1 through 10*, U.S.D.C. C.D. California, CV10-2219-GW(AGRx).

