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EPILOGUE

Apple vs. Samsung: The \$2 Billion Case

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This note provides additional information and key takeaways relating to “Apple vs. Samsung: The \$2 Billion Case,” Columbia CaseWorks case #150505.

Samsung’s Rebuttal

The Samsung team’s primary issue with Apple’s design was that it omitted many features that are important in the decision to buy a smartphone or a tablet—such as brand and battery life. They argued that omitting such features put an emphasis on less important features such as the superior touchscreen capability.

Wharton Professor David Reibstein, who was hired by the Samsung team, wrote in his report, “You’re trying to predict what it is people will buy, and if you just focus on smaller aspects and a couple of major factors, you’re going to miss what would drive sales and why people would buy your products.” Reibstein contended that it was like conducting a study of cars and asking people what type of cup-holder they would prefer rather than asking about the brand.¹

Another expert witness, Tulin Erdem of the Stern School of Business at New York University, conducted an eye-tracking study to identify which features consumers were looking at when choosing a smartphone or a tablet. Based on this study, she argued that Apple’s expert witness study had flaws: “You are elevating artificially the importance, the value of these things. They are not even in the radar screen of consumers. These are very granular . . . and they wouldn’t drive demand.”²

Samsung’s expert witnesses also argued that focusing the study only on the Samsung brand (i.e., not including Apple or other competitive brands) was another important flaw in the study’s design.

Key Learning Points from the Use of Conjoint Analysis

Conjoint analysis is a robust and widely used approach, commonly used to measure consumers’ willingness to pay for product features. This approach is particularly useful in new product design, in order to select which new features to develop. The approach has been applied across a variety of product categories, including: cars, hotels, credit cards,

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pharmaceutical drugs, and cameras. Conjoint analysis has also been frequently used in litigation cases involving billions of dollars in claimed damages. However, there are several issues to consider when using conjoint analysis:

SURVEY DESIGN

Often products have many features, and deciding what to include, and hence what to leave out, is not easy. In the case of smartphones or tablets the number of features can easily exceed a hundred. Since survey respondents have only limited resources in terms of time and attention, it is not practical to include every feature of a product in a conjoint study. However, the way a conjoint study is designed can frame the product in the eyes of the consumer, potentially over- or underestimating the importance of certain features.

Typically an effort is made to include major features such as brand and price to ensure that the basic building blocks of the decision are accounted for in the design. Apple's study design did not include brand (and hence a competitive context). Their argument was that the primary objective of their study was to measure the value of added features, which should not depend on which brand the feature is added to. Thus, since primary demand was not being estimated and the interest was only in the trade-off between the specific features in the litigation and price, it was not necessary to include brand as a feature in the design. Samsung's argument was that without the major features, the study's design was flawed—and it ultimately overestimated the importance of the features being tested.

COMPETITIVE ENVIRONMENT

Conjoint studies often assume that the market is static in terms of competitive reaction, which is not always the case. For example, if Samsung were to introduce a product with different touchscreen capabilities, both Apple and Samsung would most likely adjust their products and prices leading to a different market outcome. Therefore, when possible, conjoint simulators should capture the market environment and competitive reactions. Capturing competitive reaction in the study might complicate the design, thereby compromising the data quality. Thus, there is a trade-off involved in the design of the conjoint itself.

STUDY PARTICIPANTS

The type of respondents included in the study will have an impact on the results, based on their level of exposure to the products in the market. For example, Apple's study included only Samsung users, while Samsung contended that the study should have been more broad-based.

Endnotes

¹ Chris Smith, "Samsung: Apple's Patented Software Features Are as Trivial as Cup Holders in a Car," *Yahoo! News*, April 21, 2014, <http://news.yahoo.com/samsung-apple-patented-software-features-trivial-cup-holders-144151542.html>.

² Mikey Campbell, "Samsung Experts Say Apple's Patented Features Not Valuable in Trial," *Apple Insider*, April 18, 2014, <http://appleinsider.com/articles/14/04/19/samsung-experts-say-apples-patented-features-not-valuable-in-trial>. Ina Fried, "Samsung Expert Says Apple's Damage Calculation Methods All Wrong," *Recode*, April 18, 2014, <http://recode.net/2014/04/18/samsung-expert-says-apples-damage-calculation-methods-all-wrong/>.