

CHAPTER 1

The Role of Marketing Research in Management Decision Making

LEARNING OBJECTIVES

1. To review the marketing concept and the marketing mix.
2. To comprehend the marketing environment within which managers must make decisions.
3. To define marketing research.
4. To understand the importance of marketing research in shaping marketing decisions.
5. To learn when marketing research should and should not be conducted.
6. To learn how the Internet is changing marketing research.
7. To understand the history of marketing research.

KEY TERMS

Marketing	Marketing concept
Consumer orientation	Goal orientation
Systems orientation	Marketing research
Descriptive function	Diagnostic function
Predictive function	Return on quality
Marketing strategy	Applied research
Basic, or pure, research	Programmatic research
Selective Research	
Evaluative research	

CHAPTER SCAN

Chapter one begins with a review of the nature of marketing. The market concept is reintroduced with its three components, the customer orientation, the systems orientation, and the goal orientation. The elements of the marketing mix are also discussed. Marketing Research is defined and its importance to management is discussed. Marketing research plays a proactive role in business, seeking to understand and help development opportunities, as well as finding

solutions to marketing problems. The meaning of applied research and basic research is developed, with the understanding that marketing research is applied research.

CHAPTER OUTLINE

1. Nature of Marketing

I. Marketing

A. Definition

II. The Market Concept

A. Consumer Orientation

B. Goal Orientation

C. Systems Orientation

III. Opportunistic Nature of Marketing Research

IV. External Marketing Environment

A. Elements in the External Environment

B. Marketing Research

2. Marketing Research and Decision Making

I. Marketing Research Defined

A. AMA Definition

B. Author's Preferred Definition

II. Importance of Marketing Research to Management

A. Functional Roles of Marketing Research

B. Unrelenting Drive for Quality and Customer Satisfaction

C. Paramount Importance of Keeping Existing Customers

III. Understanding the Ever-Changing Marketplace

IV. Social Media and User Generated Content

V. Proactive Role of Marketing Research

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B. Proactive Manager

C. Proactive Marketing Strategic Plan

VI. Applied Research versus Basic Research

A. Applied Research

B. Basic or Pure Research

VII. Nature of the Applied Research

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B. Selective Research

C. Evaluative Research

VIII. Decision to Conduct Marketing Research

A. Reasons Not to Conduct Marketing Research

3. Development of Marketing Research

I. The Development of Marketing Research

A. Inception–Pre-1900

B. Early Growth–1900-1920

C. Adolescent Years–1920-1950

D. Mature Years–1950-Present

E. The Connected World: 2000-Present

4. Summary

CHAPTER SUMMARY

1. NATURE OF MARKETING

I. Marketing

A. **Definition**—the activity, set of institutions and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

1. **‘Right’ Principles**—right goods or services to the right people at the right place at the right time at the right price, using the right promotion techniques, these are provided by management making the ‘right’ decisions by having timely decision-making
Information provided by marketing research

II. The Marketing Concept

A. **Consumer Orientation**—firms strive to identify the group of people (or firms) most likely to buy their product and to produce a good or offer a service that will meet the needs of the target customers most effectively

B. **Goal Orientation**—a company can be consumer oriented only to the extent that it is also accomplishing corporate goals, such as financial goals

C. **Systems Orientation**—managers should look at the effects of management actions upon the entire organization, not just upon one unit

III. Opportunistic Nature of Marketing Research

A. Opportunities in the Marketplace – marketing research as tool

B. Attitudes about Commercials and Advertising—television versus cinema

C. Studies with Moviegoers – acceptance of on-screen commercials

IV. External Marketing Environment

A. **Elements in the External Environment**—changes over time

Managers must stay alert to these changes and alter the marketing mix accordingly

B. **Marketing Research**—key means for understanding the environment.

2. MARKETING RESEARCH AND DECISION MAKING

I. Marketing Research Defined

A. AMA Definition

Marketing research is the function that links the consumer, customer, and public to the marketer through information—information used to identify and define marketing opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address those issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications.

B. Authors Preferred Definition

Marketing research is the planning, collection, and analysis of data relevant to market decision making and the communication of the results of this analysis to management.

II. Importance of Marketing Research in Management

A. Functions of Market Research

1. **Descriptive function**—gathering and presenting statements of fact
2. **Diagnostic function**—data and/or actions are explained
3. **Predictive function**—take advantage of opportunities as they arise in the ever-changing marketplace

B. The Unrelenting Drive for Quality and Customer satisfaction

1. Quality and customer satisfaction—key competitive weapons of the 2000s.
2. Product quality—not to be achieved at the expense of customer service and satisfaction

3. Return on Quality

- a. Quality being delivered is the quality desired by the target market
- b. Added quality must have a positive impact on profitability

C. Paramount Importance of Keeping Existing Customers

1. **Customer retention**—increasing revenues and market share, decreasing costs and demands on employees' time, and improving employee retention and productivity
 - a. Ability to retain customer is based on an intimate understanding of their needs
2. **Marketing research**—to understand customers' needs and to satisfy those needs, which leads to customer satisfaction? British Airways used marketing research to find that first class passengers want to sleep.

III. Understanding the Ever-Changing Marketplace.

1. Understanding trends in the marketplace and taking advantage of opportunities
2. Marketing research has been practiced as far back as marketing existed

IV Social Media and User-Generated Content

V. Proactive Role of Marketing Research

Proactive Management—alters the marketing mix to fit the newly emerging patterns in economic, social, and competitive environments, whereas reactive management waits for change to have a major impact on the firm before deciding to take actions

1. **Proactive position**—to become cutting-edge in the industry
2. **Proactive management**—allows managers to anticipate changes in the market and customer desires and then design goods and services to meet those changes and needs

B. Proactive Manager—continually seeks new opportunities through strategic planning

C. Proactive Marketing Strategic Plan—guides the long-run use of the firm's resources based on the firm's existing and projected internal capabilities and on projected changes in the external environment

VI. Applied Research versus Basic Research

A. Applied Research—conducted to determine changes in the market, to better understand results of a decision, or to reduce uncertainty in management decision making.

B. Basic or Pure Research—expands the frontiers of knowledge.

Basic research is conducted to validate an existing theory or learn more about a concept or phenomenon—findings of basic research usually cannot be implemented by managers in the short run

VII. Nature of Applied Research

A. Programmatic Research—helps develop marketing options through market segmentation, market opportunity analysis, or consumer attitude and product usage studies

1. Arises from management's need to obtain a market overview.

Some questions that programmatic researchers ask

- a. Has its target market changed? How?
- b. Does the market exhibit any new segmentation opportunities?
- c. Do some segments appear to be more likely candidates than others for the firm's marketing efforts?
- d. What new product opportunities lie in the various segments?

B. Selective Research—used to test decision alternatives

1. Conducted after several viable options have been identified
2. Can be required at any stage of the marketing process

C. Evaluative Research—used to assess program performance

1. Need arises when the effectiveness and efficiency of marketing programs must be evaluated

VIII. Decision to Conduct Marketing Research

A. Reasons not to conduct marketing research

1. **Resources are lacking**—organization does not have the funds to conduct research properly, it should not be undertaken
2. **Research results would not be useful**—information obtained from the research could not be used in a practical application by the firm

3. **Opportunity has passed**—if the opportunity for successful entry into a market has already passed
 4. **The decision has already been made**—management is just conducting research to try to justify a decision that has already been made
 5. **Managers cannot agree on what they need to know to make a decision**—if the problem or opportunity to be researched cannot be properly identified, it is impossible to plan and implement a marketing research project to help managers resolve the problem or take advantage of the opportunity
 6. **Decision-making information already exists**— Organizations gather much data and information in daily activities. This information may hold the answer to a research problem, and it is unwise to invest in a project to gather the same information.
 7. **The costs of conducting research outweigh the benefits**—when the expected value of the information is greater than the cost of obtaining the data
- a. See Exhibit 1.1 Deciding Whether to Conduct Marketing Research (p 11)

3. DEVELOPMENT OF MARKETING RESEARCH

I. The Development of Market Research

A. The Inception—Pre-1900

1. Election poll performed by *Harrisburg Pennsylvanian* in July 1824; John Jacob Astor employed an artist to sketch the hats worn by fashionable New York women in 1790's so he could keep abreast of fashion trends.
2. First documented use of research to make informed marketing decisions was by advertising agency N.W. Ayer in 1879 to determine expected levels of grain production.
3. Academics enter field in 1895.

B. **Early growth**—1900-1920—in response to the need to understand consumer's buying habits the first formal marketing research department was established by the Curtis Publishing Company in 1911

C. The Adolescent Years—1920-1950

1. Percival White developed the first application of scientific research to commercial problems
2. A. C. Nielsen entered the research business in 1922 expanding on White's earlier work by developing the "share of market" concept

3. 1930s formal courses in marketing research were offered on college campuses
4. Two events that helped the discipline to become a well-defined profession—the spread of broadcast media and World War II

D. The Mature Years—1950 to present

1. The mid-1950s brought the concept of market segmentation, based largely on easily identifiable demographic characteristics of customers
 2. The concepts of segmentation and motivation analysis were combined with psychographics and benefit segmentation
 3. Several mathematical models were developed for description and prediction—stochastic models, Markova models, linear learning models
 4. The development of the computer during the early 1960s enhanced the researcher's ability to quickly analyze, store, and retrieve large amounts of data
- a. **See Practicing Marketing Research: What is Good About Marketing Research Today** (p 13)
5. Marketing research is undertaken to reduce the risks when opening new markets through either expansion or introduction of new products. William D. Neal, founder and senior executive office of SDR Consulting, talks about what he believes is good about research today.
 6. **Voice of the customer**—businesses and other institutions are measuring and monitoring customer satisfaction and loyalty on a continuous basis, using that information to improve processes and stem defections
 7. **Management metrics**—provide the key metrics to senior management—they are beginning to include marketing components—brand health measures, changes in brand equity, advertising and promotional effectiveness measures, indices of customer satisfaction, and several other measures of marketing impact
 8. **New Products**—failure rate of new products has been laid at the doorstep of marketing research; however, investigation into these failures tends to exonerate some of the research. The failures occur because
 - a. There were inadequate investments in research
 - b. The research was ignored
 - c. What was researched was not what was launched
 - d. There was inadequate marketing and promotional support or

e. There were inadequate sales or fulfillment support

9. **Branding**—companies are again recognizing that brands represent a component of value that can't be replicated by a competitor—offers a unique, defensible asset for the owner and a launch pad for new product development and deployment. In the past, branding has been hard to measure—now there are several research-based models for measuring brand value and brand equity and uncovering their key drivers. Quantifiable changes in brand equity represent the ultimate measure of return on marketing investment.

E. The Connected World: 2000-Present

1. Benefits for Marketing Researchers

4. SUMMARY

QUESTIONS FOR REVIEW AND CRITICAL THINKING

1. The role of marketing is to create exchanges. What role might marketing research play in facilitating the exchange process?

Exchange can take place when two or more parties have something of potential value to each other and can communicate and deliver these desired goods or services. Marketing research helps these parties to determine what goods or services are desired by other parties and at what price level these goods and services become of value. In other words, marketing research aids managers in determining who wants benefits from goods or services and where, when, and at what price an exchange can occur.

2. Marketing research has traditionally been associated with manufacturers of consumer goods. Today an increasing number of organizations, both profit and nonprofit, are using marketing research. Why do you think this trend exists? Give some examples.

Marketing research helps all organizations follow the principle of the “marketing concept.” Profit-making organizations face increasing amounts of competition from U.S. companies, as well as from global companies. Also, both profit-making and nonprofit organizations are serving an increasingly diverse clientele. Marketing research helps to identify target customers and their needs in a rapidly changing environment.

3. Explain the relationship between marketing research and the marketing concept.

The marketing concept requires (1) a consumer orientation, (2) a goal orientation, and (3) a systems orientation. The consumer orientation means that firms strive to identify the group of people (or firms) most likely to buy their product (the target market) and to produce a good or offer a service that will meet the needs of those target customers most effectively. This must be accomplished while serving the firm's other goals, which means the firm has a goal orientation. The systems orientation aspect of the orientation means that the firm has a system in place to achieve the consumer orientation and the goal orientation. Within this system is marketing research, which helps identify what customers want to buy and at what price they will buy it.

4. Comment on the following statement by the owner of a restaurant in a downtown area: "I see customers every day whom I know on a first-name basis. I understand their likes and dislikes. If I put something on the menu and it doesn't sell, I know that they didn't like it. I also read the magazine *Modern Restaurants*, to keep up with industry trends. This is all of the marketing research that I need to do."

This restaurant owner may know customers by name, but the assertion about understanding their tastes may be over-confident. An item on the menu may not sell because the customers are not familiar with it. Or, it may be perceived as too expensive. There could be many reasons why a product might not sell as well as the owner wants it to. By conducting marketing research, the owner could better determine the preferences of customers and potential customers. This would save the money, effort, and time of changing the menu selection. While a national magazine can determine national trends in the restaurant business, these trends are not always completely applicable at the local level. Marketing research could help the owner become familiar with the favorite foods in the local geographic market.

5. Why is marketing research important to marketing executives? Give several reasons.

Marketing research is important to marketing executives because it gives them additional information on which to make decisions. Some of that information includes:

- It discovers trends in the market.
- It gauges customer attitudes toward products, services, and advertising.
- It explains what effect changing an element of the marketing mix would have on sales.

- It predicts the results of a planned marketing decision.
- It determines the level of services customers' desire at a given price.

6. What differences might you note among marketing research conducted for (a) a retailer, (b) a consumer goods manufacturer, (c) an industrial goods manufacturer, and (d) a charitable organization?

Each of these organizations would use marketing research to help accomplish the strategic mission of their organization or the goals that were determined to be most important. For example:

A retailer might use marketing research to track trends in demographics, to determine effective advertising strategies, and to find products or services desired by the customer.

A consumer goods manufacturer might use marketing research to help determine the probability of success of a new product or to keep current on its competitors' activities and success. It might also use it to ascertain the best target market for current products.

An industrial goods manufacturer might use marketing research to project future needs of customers or to determine the level of products that will be demanded.

A charitable organization might use marketing research to determine what services are most needed in a demographic target market and to find the most effective vehicle for delivering those services. It might also use marketing research to identify potential donors and to find the most effective way to appeal to them.

7. Comment on the following: Ralph Moran is planning to invest \$1.5 million in a new restaurant in Saint Louis. When he applied for a construction financing loan, the bank officers asked whether he had conducted any research. Ralph replied, "I checked on research and a marketing research company wanted \$20,000 to do the work. I decided that with all the other expenses of opening a new business, research was a luxury that I could do without."

If Mr. Moran is willing to spend \$1.5 million on a new restaurant without conducting marketing research, he should be prepared to lose that money. Without marketing research, he may not know his potential customers or their desires. Nor will he know if those desires or needs are currently being met by existing businesses, or at what price or quality level the customers would be willing to try a new restaurant. His advertising may be at best ineffective or at the worst offensive. For example, what if he were to advertise barbecue pork ribs in an area that is

predominantly Jewish? Given all of this, \$20,000 seems a small price to pay to increase the chances of success of a business with so large an investment.

8. What is meant by “return on quality”? Why do you think that the concept evolved? Give an example.

Return on Quality means two things. First, that the quality being delivered is the quality desired by the target market. Second, that added quality must have a positive impact on profitability. The concept may have evolved because of the large number of quality programs that were begun in the 1980's and 1990's which did not improve the financial position of the companies who started them. National Bank Corporation, mentioned in the text, measures every improvement in service quality in terms of added profitability.

9. Describe three situations in which marketing research should not be undertaken. Explain why this is true.

A Lack of Resources – If an organization does not have the funds to conduct the research properly, it should not be undertaken. If a firm has the money to perform the research, but it cannot afford to implement changes based on the research, it should not conduct the research.

Research Results Would Not Be Useful – The information obtained from the research could not be used in a practical application by the firm.

Poor Timing in the Marketplace – If a product is in a category that is almost at a saturation point, new product entry research would be foolish.

10. Given an example of (a) the descriptive role of marketing research, (b) the diagnostic role of marketing research, and (c) the predictive function of marketing research.

An example of the descriptive role of marketing research is a bank or other financial institution performing research to determine the demographics of its customers. An example of the diagnostic role of marketing research is the bank using the demographics of customers and the demographics of the area population to determine if a certain age group needs to be targeted with promotion. If the bank uses the information gathered above, the predictive function of marketing research should allow it to predict the reaction of the target group to the advertising and the percentage increase in new accounts.

11. Using the Internet and a Web browser, visit a search engine such as Google or Yahoo!, and type, “marketing research.” From the thousands of options you are offered, pick a Web site that you find interesting and report on its content to the class.

There are many possible answers, depending on the interest of individual students.

12. Divide the class into groups of four. Each team should visit a large organization (profit or nonprofit) and conduct an interview with the top marketing executive to discover how this firm is using marketing research. Each team then should report its findings in class.

There are many possible answers.

13. How is the Internet changing the field of marketing research?

The reach, economy, and speed of the Internet have had significant effects in the recent past, and promise to have even more profound impact in the future. Secondary information for exploratory research can be obtained from literature reviews and Web pages. The capacity for capture and communication of primary data will make descriptive research more effective. Consumers can be surveyed on-line, and the results analyzed instantly. Project sponsors and researchers will be able to communicate and collaborate more easily. In addition, research results and reports can be disseminated over a wide audience, again in real-time.

REAL LIFE RESEARCH

Case 1.1 – Give Me a Coupon That I Can Use Online! (p 18)

Key Points

- Coupons have a significant impact on retailers' bottom lines in addition to the obvious consumer benefit as couponers are likely to spend more, have higher satisfaction, and return to the retailer where the coupon was used, according to Online Shopper Intelligence, a study from Boston research company Compete.
- Coupons can be an effective way for retailers to build good-will with consumers and increase customer satisfaction.
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Questions

1. How might a firm like Home Depot use this information? Would Amazon.com use the same couponing strategy as Home Depot?

Home depot could use an in store application for smart phones. The smart phone would display coupons that could be used for that day to purchase this kind of products Amazon.com should have coupons appear when items are transferred to the purchase cart online..

2. Do you think that Home Depot might need more research before it develops a couponing strategy? If so, what does it need to know?

Yes. Home depot should analyze how many of its customers use in store coupons from their smart phones.

3. Do you think it is necessary for online retailers to conduct marketing research? Why?

Yes. Online retailers should conduct marketing research and correlate the consumer decision process with the usage of online coupons.

Case 1.2 – Young Consumers Searching for a Bank Still Want the Personal Touch (p 19)

Key Points

- A recent survey by Mintel finds that young consumers are both similar to and different from their parents when it comes to banking and debt.
- Only 33% of young consumers (18-34) use online banking services; 37% say they would switch banks for better customer service; 40% of those not using online banking say it is because they "don't trust transactions on the Internet."
- However, credit card ownership amongst young consumers has been dropping in recent years. Mintel researchers claim this is because young consumers have watched their parents struggle with debt. At the same time, 60% of young consumers express an interest in "contactless" credit cards

Questions

1. How might a bank use this information?

A bank may use this research as a starting point for thinking about the attitudes, beliefs, and motivations of their current and prospective young customers. Additional, customized research may prove useful in understanding why consumers do not make use of online banking services despite having grown up with the Internet. Is the core issue one of trust or is there a more functional or needs-based explanation? A bank might take particular note of the finding that young consumers appear interested in "high tech" credit cards even in an era of declining credit card use. Perhaps linking high tech credit cards can be packaged or cross-sold with online banking services.

2. Could this research have been conducted over the Internet? What other means might have been used to gather the data?

This research could have been conducted (solely) over the Internet, but doing so would seem to potentially problematic given the topic of the survey. Specifically, young consumers who are comfortable participating in online surveys may hold particular beliefs or attitudes towards online banking that differ from those of young consumers who are not comfortable participating in online surveys. Relevant data could have been collected via mall intercepts, phone surveys, campus campaigns, or direct mail.

3. Is this basic or applied research? Why?

This is applied research. It was conducted to determine changes in the market.

4. What other type of marketing research information might a bank need to effectively market to young consumers?

A bank would need information on young consumers' other non-age demographic characteristics, lifestyle and psychographic profiles, values, attitudes and knowledge regarding personal finance, and media viewing patterns.