

Chapter 1

Introduction to Market Research

Learning Objectives

After reading this chapter, you should understand:

- What market and marketing research are and how they differ.
- How practitioner and academic market(ing) research differ and where they are similar.
- When market research should be conducted.
- Who provides market research and the importance of the market research industry.

Keywords Full service and limited service providers · Market and marketing research · Syndicated data

Introduction

When Toyota developed the Prius – a highly fuel-efficient car using a hybrid petrol/electric engine – it took a gamble on a grand scale. Honda and General Motors' previous attempts to develop frugal (electric) cars had not worked well. Just like Honda and General Motors, Toyota had also been working on developing a frugal car but focused on a system integrating a petrol and electric engine. These development efforts led Toyota to start a development project called Global Twenty-first Century aimed at developing a car with a fuel economy that was at least 50% better than similar-sized cars. This project nearly came to a halt in 1995 when Toyota encountered substantial technological problems. The company solved these problems, using nearly a thousand engineers, and launched the car, called the Prius, in Japan in 1997. Internal Toyota predictions suggested that the car was either going to be an instant hit, or that the take-up of the product would be slow, as it takes time to teach dealers and consumers about the technology. In 1999, Toyota made the decision to start working on launching the Prius in the US. Initial market research showed that it was going to be a difficult task. Some consumers thought it was too small for the US, some thought the positioning of the controls was poor for US

drivers, and there were other issues, such as the design, which many thought was too strongly geared toward Japanese drivers.

While preparing for the launch, Toyota conducted further market research, which could, however, not reveal who the potential buyers of the car would be. Initially, Toyota thought the car might be tempting for people concerned with the environment but market research dispelled this belief. Environmentalists dislike technology in general and money is a big issue for this group. A technologically complex and expensive car such as the Prius was therefore unlikely to appeal to them. Further market research did little to identify any other good market segment. Despite the lack of conclusive findings, Toyota decided to sell the car anyway and to await public reactions. Before the launch Toyota put a market research system in place to track the initial sales and identify where customers bought the car. After the formal launch in 2000, this system quickly found that the car was being bought by celebrities to demonstrate their concern for the environment. Somewhat later, Toyota noticed substantially increased sales figures when ordinary consumers became aware of the car's appeal to celebrities. It appeared that consumers were willing to purchase cars endorsed by celebrities.

CNW Market Research, a market research company specialized in the automotive industry, attributed part of the Prius's success to its unique design, which clearly demonstrated that Prius owners were driving a different car. After substantial increases in the petrol price, and changes to the car (based on extensive market research) to increase its appeal, Toyota reached total sales of over 2 million and is now the market leader in hybrid petrol/electric cars.

This example shows that while market research occasionally helps and greatly increases sales, sometimes it contributes little or even fails. There are many reasons for market research varying between being helpful and failing. These reasons include the budget available for research, support for market research in the organization, and the research skills of the market researchers. In this book, we will guide you through the practicalities of the basic market research process step by step. These discussions, explanations, facts, and methods will help you carry out market research successfully.

What is Market and Marketing Research?

Market research can mean several things. It can be the process by which we gain insight into how markets work, a function in an organization, or it can refer to the outcomes of research, such as a database of customer purchases or a report including recommendations. In this book, we focus on the market research process, starting by identifying and formulating the problem, continuing by determining the research design, determining the sample and method of data collection, collecting the data, analyzing the data, interpreting, discussing, and presenting the findings, and ending with the follow-up.

Some people consider *marketing research* and *market research* to be synonymous, whereas others regard these as different concepts. We understand marketing research as defined by the American Marketing Association, the largest marketing association in North America:

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 these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications (American Marketing Association 2004).

On the other hand, ESOMAR, the world organization for market, consumer and societal research, defines market research as:

The systematic gathering and interpretation of information about individuals or organizations using the statistical and analytical methods and techniques of the applied social sciences to gain insight or support decision making. The identity of respondents will not be revealed to the user of the information without explicit consent and no sales approach will be made to them as a direct result of their having provided information (ICC/ESOMAR international code on market and social research 2007).

Both definitions overlap substantially but the definition of the AMA focuses on marketing research as a *function* (e.g., a department in an organization), whereas the ESOMAR definition focuses on the *process*. In this book, we focus on the process and, thus, on market research.

Whatever the case, practitioners and academics are involved in marketing and market research. These academic and practitioner views of market(ing) research differ in any ways but also have many communalities. For example, the tools and techniques developed and first applied by academics were subsequently adopted by practitioners. Examples of such tools include factor analysis and conjoint analysis. Although a small number of practitioner-developed tools were subsequently adopted by academics, in general, practitioners work with tools and techniques and concepts that academics developed. Although this is a similarity, in practice the rigor with which practitioners apply these tools is often less than when they are used by academics. This is partially due to the greater time pressures that practitioners face. Practitioners usually have a much shorter time span in which to carry out research than academics because, for example, research may need to be carried out in a hurry to study how the planned launch of a new product is impacted by competitors' moves. Thus, both the time available to carry out research, as well as the window of opportunity to do so, may differ between practitioners and academics. Another reason why practitioner and academic rigor differs is due to those who assess the research both parties undertake. Managers (who are mostly the "judges" of market research) may be predominantly concerned with the insights generated and market research's subsequent help with reaching targets and, consequently, less concerned with the rigor of the tools or techniques applied. In comparison, academic marketing research is judged mostly by editors and journal

reviewers. These editors and reviewers are highly trained in research tools and techniques and focus on both rigor and relevance. Interestingly, practitioners often claim that their research is based on academic research but the reverse (academics claiming their research is based on practitioners' standards) never happens.

Besides these differences, there are also many similarities. For example, good measurement is paramount for academics as well as practitioners. Furthermore, academics and practitioners should be interested in each others' work; academics can learn much from the practical issues faced by practitioners while practitioners can gain much from understanding tools, techniques, and concepts that academics develop. The need to learn from each other was underlined by Reibstein et al. (2009), who issued an urgent call for the academic marketing community to focus on relevant business problems.¹ Finally, contributing to academic and practitioner research can be highly rewarding career paths!

When Should Market Research (Not) Be Conducted?

Market research serves a number of useful roles in organizations. Most importantly, market research can help organizations by providing answers to questions firms may have about their customers and competitors; answers that could help such firms increase their performance. Specific questions related to this include identifying market opportunities, measuring customer satisfaction, and assessing market shares. Some of these questions arise ad hoc, perhaps due to issues that the top management, or one of the departments or divisions have perceived. Much of the research is, however, programmatic; it arises because firms systematically evaluate elements of the market. An example of this type of research is conducted by Subway, the restaurant chain, that uses tools to systematically measure customer satisfaction. This type of research does not usually have a distinct beginning and end (contrary to much of ad hoc research) but continues over time and leads to daily, weekly, or monthly reports.

The decision to conduct market research may be taken when managers face an uncertain situation and when the costs of undertaking good research are (much) lower than the expected benefits of making good decisions. Therefore, researching trivial issues or issues that cannot be changed is likely to be bad decisions.

Other issues to consider are the politics within the organization; if the decision to go ahead has already been taken (as in the Prius example in the introduction), market research is unnecessary. If it is conducted and supports the decision, it is of little value (and those undertaking the research may be biased towards supporting the decision), while it is ignored if it rejects the decision.

Moreover, if organizations need to make very quick decisions (responding to competitive price changes, unexpected changes in regulation or the economic climate), research should mostly not be undertaken. Although market research may help, the need for timeliness is likely to mean that the research in support of

¹See also Lee and Greenley (2010) on this discussion.

making decisions is likely to be concluded after the decisions have already been made.

Who Provides Market Research?

Many organizations have people, departments, or other companies working for them to provide market research. In Fig. 1.1, we show who these providers of market research are.

Most market research is provided internally through specialized market research departments or people tasked with this function. It appears that about 75% of organizations have at least one person tasked with carrying out market research. This percentage is similar across most industries, although it is much less in government sectors and, particularly, in health care (Churchill and Iacobucci 2005).

In larger organizations, internally provided market research is usually undertaken by a specific group within the marketing department. Sometimes this sub department is not connected to a marketing department but is connected to other organizational functions, such as corporate planning or sales. Certain large organizations even have a separate market research department. This system of having a separate marketing research department or attaching it to other departments seems to become more widespread with the marketing function increasingly devolving into other functions within organizations (Sheth and Sisodia 2006).

The external providers of market research are a powerful economic force. In 2008, external providers had a turnover of about 19.75 USD billion collectively (Honomichl 2009). The market research industry has also become a global field with companies such as the Nielsen Company (USA), Taylor Nelson (UK), GfK (Germany), Ipsos (France), and INTAGE (Japan) playing major roles outside their home markets. External providers of market research are either full or limited service providers.

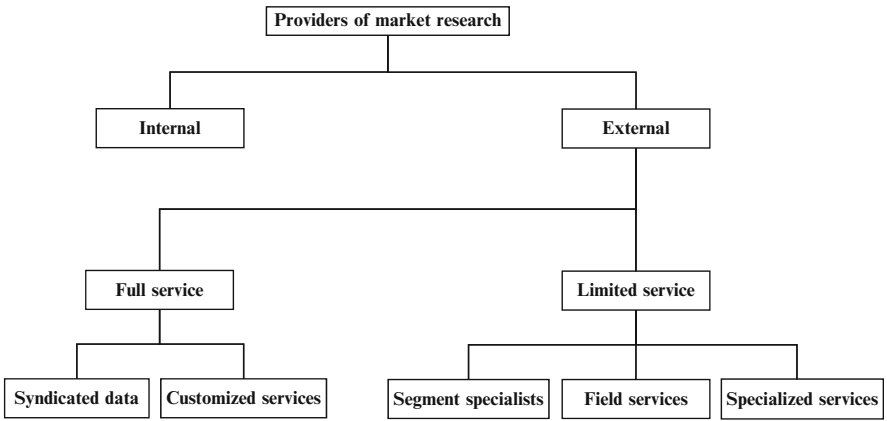


Fig. 1.1 The providers of market research

Full service providers are large market research companies such as the Nielsen Company, Taylor Nelson, and GfK. These large companies provide syndicated data as well as customized services. Syndicated data are data collected in a standard format and not specifically collected for a single client. These data, or analyses based on the data, are then sold to multiple clients. Syndicated data are mostly collected by large marketing research firms, as they have the resources to collect large amounts of data and can spread the costs of doing so over a number of clients. For example, the Nielsen company collects syndicated data in several forms: Nielsen's Netratings, containing information on digital media; Nielsen Ratings, which details the type of consumer who listens to the radio, watches TV, or reads print media; and Nielsen Homescan, which consists of panel information on the purchases consumers make. These large firms also conduct studies for a specific client, which is labeled a *customized service*. These customized services can be very specific, such as helping a client with a specific analysis technique.

Compared to full service providers, which undertake nearly all market research activities, *limited service providers* specialize in one or more services and tend to be smaller companies. In fact, many of the specialized market research companies are one-man businesses with the owner, after (or besides) a practitioner or academic career, offering his or her specialized services. Although there are many different types of limited service firms, we only discuss three of them: those focused on segmentation, field service, and specialized services.

Segment specialists focus on specific market segments. Examples of such specialists include RSA Ltd. (see Box 1.1), which focuses on market research in the airline and airport sector. Other segment specialists do not focus on a particular industry but on a type of customer. Ethnic Focus (see Box 1.1), a UK-based market research firm, for example, focuses on understanding ethnic minorities.

Box 1.1 Web links and mobile tags



RSA Ltd.

<http://www.asm-global.com/page.php?id=918>



Ethnic Focus

<http://www.ethnicfocus.com/>

(continued)



Survey Sampling International
<http://www.surveysampling.com/>

Field service firms, such as Survey Sampling International (see Box 1.1), focus on executing surveys, for example, determining samples, sample sizes, and collecting data. Some of these firms also deal with translating surveys, providing addresses and contact details.

Specialized Service firms are a catch-all term for firms that have specific technical skills, that only focusing on specific products, or aspects of products such as market research on taste and smell. Specialized firms may also focus on a few highly specific market research techniques, or may focus on one or more highly specialized analysis techniques, such as time series analysis, panel data analysis, or quantitative text analysis. These specialized firms are often subcontractors carrying out a part of a larger research project. Subcontractors are quite important and subcontractors undertake about 15% of all external market research activities regarding turnover in the Netherlands (MOA 2009).

The choice between these full service and limited service market research firms boils down to a tradeoff between what they can provide (if it is highly specialized, you may not have much choice) and the price of doing so. In addition, if you have to piece many studies together to gain further insight, full service firms may be better than multiple limited service firms. Obviously, the fit and feel *with* the provider are highly important too!

Questions

1. What is market research? Try to explain what market research is in your own words.
2. Imagine you are the head of a division of Procter & Gamble. You are just about ready to launch a new shampoo but are uncertain about who might buy it. Is it

useful to conduct a market research study? Should you delay the launch of the product?

3. Try to find the websites of a few market research firms. Look for example at the services provided by GfK and the Nielsen Company and compare the extent of their offerings to those of specialized firms such as those listed on, for example, <http://www.greenbook.org>
4. If you have a specialized research question, such as what market opportunities there are for selling music to ethnic minorities, would you use a full service or limited service firm (or both)? Please discuss the benefits and drawbacks.

Further Readings

American Marketing Association at <http://www.marketingpower.com>

Website of the American Marketing Association. Provides information on their activities and also links to two of the premier marketing journals, the Journal of Marketing and the Journal of Marketing Research.

Marketing Research Association at <http://www.mra-net.org>

The Marketing Research Association is based in the US and focuses on providing knowledge, advice, and standards to those working in the market research profession.

The British Market Research Society at <http://www.mrs.org.uk>

The website of the British Market Research society contains a searchable directory of market research providers and useful information on market research careers and jobs.

Associação Brasileira de Empresas de Pesquisa (Brazilian Association of Research Companies) at <http://www.abep.org/novo/default.aspx>

The website of the Brazilian Association of Research Companies. It provides some English documents as well as Brazilian documents on research ethics, standards, etc.

ESOMAR at <http://www.esomar.org>

The website of ESOMAR, the world organization for market, consumer and societal research. Amongst other activities, ESOMAR sets ethical and technical standards for market research and publishes books and reports on market research.

GreenBook: The guide for buyers of marketing research services at <http://www.greenbook.org>

This website provides an overview of many different types of limited service firms.

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