Rx for Marketing Research

A diagnosis of and prescriptions for the recovery of an ailing discipline in the business world

By Vijay Mahajan and Jerry Wind

It's easy to see why some people think marketing research is dead. Consider companies such as Sony, Chrysler, and Compaq, which successfully "ignored the customer" to create the Walkman™, minivan, and PC network servers. Others listened to customers and created such flops as New Coke (Coca-Cola Co.) and McLean burgers (McDonald's Corp.). Radical innovations such as interactive television seem to defy all marketing tools to truly understand what services customers want. Sony Corp.'s Akio Morita has commented: "The public does not know what is possible to do, but we do. So instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it." Or, in the words of minivan creator Hal Sperlich, as reported by Fortune magazine, "In 10 years of developing the minivan, we never once got a letter from a housewife asking us to invent one."

Indeed, a study we conducted earlier this decade found a very low use of quantitative marketing research techniques in new product development. The Marketing Science Institute-sponsored study, which sought to assess the use of marketing research methods and models by Fortune 500 companies, also found that many managers, especially top executives, gave marketing research a low rating. In recent years, many companies have cut back on marketing research, whether eliminating the function altogether or relegating it to a marginal staff function with little importance and dwindling budgets. Managers routinely outsource many of their marketing research projects and have the marketing researchers serve as "research brokers."

Nevertheless, these findings are especially surprising at a time of increased recognition of quality as defined by the customer, rising attention to customer satisfaction, and increased focus on creating knowledge-based organizations. But marketing research, as it's currently viewed and practiced, has failed to rise to these opportunities. For this discipline to begin to address the current needs of our organizations, market researchers need to stop conducting research as usual and begin to develop new and richer models for the creation of marketing knowledge. We've proposed some prescriptions to help market research to a full recovery.
FULL RECOVERY OPPORTUNITY

Market research is not dead; in fact, it’s not fundamentally flawed. The discipline has been misapplied, but most of all, its potential has not been fulfilled. In rapidly changing global markets, its role is more important than ever. In an age when knowledge is critical to success, marketing research can be a knowledge-creation engine. Marketing research can provide key insights on how to achieve profitable growth. But to realize the potential of marketing research, market researchers need to change the way they use it in the following ways:

• Focus on diagnosing problems.
• Use new information technology (IT) to increase speed and efficiency.
• Take an integrative approach.
• Expand its strategic impact.

By following these guidelines, market researchers will change the content and nature of marketing research—so much so, that the next-generation marketing research perhaps should not even be called “marketing research.” Marketing researchers have to reinvent the whole architecture for effective marketing research by reexamining its culture, values, principles, strategies, architecture, and processes. In a knowledge organization, this function should be the eyes, ears, and a key part of the intelligence of the organization. It should help make sense of the avalanche of impressions pouring in through the many human and electronic portals of the firm.

Technology specialists have done a great job expanding the quantity and quality of the data available, but even the best data warehouse falls far short of providing true insights into the market and the effective marketing strategies needed to succeed. The strength of marketing research is making sense of quantitative and qualitative inputs from customers. With the right approach, it could play a central role in turning the overflowing information of our organizations into marketing knowledge.

FOCUS ON DIAGNOSIS

To start moving the discipline forward, market researchers first need to stop using it only to test solutions (specific products or services), and instead should use it to diagnose the market. Consider this scenario using the doctor-patient analogy: Patients don’t typically have a specific solution to their problem in mind. Instead, the patients might tell the doctor they have an upset stomach, trouble sleeping, and aches. (With increased use of direct-to-consumer drug advertising, the patient may ask for a specific medicine to solve that problem, yet it is up to the expert physician to diagnose the problem and assure that the selected treatment is most appropriate.) Similarly, customers didn’t ask for a Walkman or minivan before these products’ invention, but they did help identify the needs for portable entertainment and of additional space in family vehicles.

No doctor would propose identifying diagnosis as worthless because the patients didn’t come up with the cure. But in marketing research, that type of scenario is occurring. Although marketing researchers cannot expect customers to identify product or service solutions, they can use market research as an interactive process of diagnosis and experimentation.

In some situations, particularly those in which innovations are continuous and uncertainty is minimal, companies can ask customers about the incremental changes they want in their product offerings. Such situations include those in which one might use over-the-counter drugs. A patient typically wouldn’t visit a doctor for treatment of a mild headache. That’s because solutions to the problem are fairly straightforward, and such a scenario does not warrant the added expense of a diagnostician.

On the other hand, companies need to lead the market in situations in which there are discontinuous innovations and market uncertainty. This is similar to the way doctors or architects “lead” their clients through a process of understanding their needs by asking questions about their experiences. This is particularly important when:

1. Customer needs are not articulated
2. Customer preferences are not developed
3. Customers need to learn about unfamiliar products
4. The technology potential is unknown or evolving over time
5. Regulations and other factors are uncertain or evolving

In this environment, customer responses to products and services may not be very useful. If customers are asked whether they would use interactive television for education or to watch movies, they might say education. But when they actually have the boxes in their homes, they might be just as likely to choose a movie over education as they are to choose a Big Mac over a McLean sandwich. (For other examples, see the adjacent
sidebar entitled “Understanding Discontinuous Opportunities.”) But marketing research can help discover unarticulated needs and find ways to meet them. For example, customer surveys may not reveal what the demand for interactive television will be, but they can identify unmet needs of customers (such as the desire to find more information or purchase products).

As pointed out in Fortune, marketing research focuses on current markets and articulated needs. (See Additional Readings on page 13.) But there are ways to extend marketing research into unserved markets and unarticulated needs without asking customers to come up with the next Walkman. In fact, Morita’s keen informal observation of American youth led to the development of the Walkman, and Chrysler’s understanding of baby boomers’ unarticulated need for more space led to the creation of the minivan.

The basis of an effective marketing diagnosis is an ongoing, iterative process, similar to the way a doctor makes a diagnosis. The first diagnosis, made in real time, leads to a series of experiments. The doctor prescribes a treatment and, after trying one treatment for a few weeks, the patient reports back. The doctor assesses the effectiveness of the treatment. In contrast, many marketing research projects are viewed as a one-shot event. At the same time the experimental diagnoses are progressing, the doctor is educating the patient about the symptoms to pay attention to and the possible treatments. This interactive process leads to the development of the best treatment.

Using a similar approach, marketing research could help customers articulate their needs and problems, or understand and experience a new product and service solution. Effective marketing research uses sampling, searching, and experience to engage in this type of iterative, experimental process.

**IT HELPS SPEED, EFFICIENCY**

Speed is vital, particularly in new product launches. A study of new product development in the Japanese automobile industry by Harvard Business School’s Kim Clark found that for a car that sells for $10,000, each day of delay in market introduction costs a carmaker more than $1 million in lost profits.

A weakness of traditional marketing research is the trade-off between moving quickly and conducting thorough research. To move quickly, companies often cut corners on their marketing research or abandon it completely.

Advances in IT offer unique opportunities to increase the speed of marketing research and also puts an unprecedented amount of data in the hands of researchers. But they need to be prepared

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**UNDERSTANDING DISCONTINUOUS OPPORTUNITIES**

**AT&T videophones failed; Domino’s delivered**

Discontinuous innovations require a major change in consumer behavior. And while AT&T Corp. failed to meet this challenge with its videophone products, Domino’s Pizza Inc. succeeded, with its pizza-delivery service in Japan.

AT&T’s videophone has been on hold for decades, despite high hopes for a consumer market. In 1970 when the New York-based company launched the Picturephone—an early version of the modern videophone—it predicted it would generate $1 billion in business in a decade, which never materialized.

The videophone returned in 1992, with the company predicting that millions of videophones would be in use by 1994. However, by 1994 only 30,000 of them were sold worldwide, mostly outside the U.S., according to Across the Board magazine.

The questions AT&T should have asked are: What market need does this product fulfill? Do people at home really want to be seen? Will people pay extra to have the whole world see them come to the phone in their bathrobes? The videophone product required a discontinuous change in consumers’ behavior—without a meaningful customer benefit and at an increased cost. The product was a wonderful solution to a problem that didn’t exist.

When Ann Arbor, Mich.-based Domino’s Pizza introduced its pizza delivery in Japan, a major change in Japanese consumers' behavior was needed as well. Yet Domino’s managed to rise to the challenge successfully, unlike AT&T with its videophone. If Domino’s had merely tested the acceptability of the service it delivered in other parts of the world, it never would have entered Japan. Japanese consumers typically don’t eat tomato-based food, and Asians tend to have allergies to milk products. Home delivery was not widely accepted; housewives were reluctant to give up cooking. Houses were small, and finding customers in the labyrinthine streets of Tokyo seemed impossible. A market for pizza didn’t exist, nor did any sign of hope in creating one.

Instead of trying to sell its existing product and service to the market, Domino’s used its information about customers to design a new product and service offering for Japan. It introduced toppings such as fish and sushi. To sustain its 30-minute delivery, Domino’s developed a complex address database and small scooters to navigate the narrow streets in Tokyo. Through this interactive process of diagnosis, this pizza-delivery service that no one asked for became a big hit in Japan.
to deal with the technology and information effectively. Such companies as Dallas-based Texas Instruments Inc. are experimenting with Internet-based marketing research, which allows almost instantaneous feedback from actual consumers. White Plains, N.Y.-based Moskowitz Jacobs Inc. can provide a report based on information from consumer taste panels around the world within 72 hours. Future innovations could further accelerate this process, including the development of a “vending machine” approach that allows managers to develop their own research projects online and send them out electronically to panels around the world.

Technology also can be used to give subjects a direct experience of a virtual product, avoiding the costly, time-consuming, and competitively revealing process of using real-life test markets. The “Information Acceleration” process, developed by Massachusetts Institute of Technology’s Glen Urban and his colleagues, uses multimedia stimuli to forecast consumer response to new-to-the-world products. These multimedia representations of the product—and the environment in which it is introduced to consumers—can be developed earlier, quicker, and more efficiently than physical prototypes and studies of actual test markets. Their tests over a five-year period—with products such as automobiles, medical equipment, and new cameras—showed the approach offered insights into the market that were borne from subsequent experience.

As can be seen in these examples, new technology offers ways to reduce the trade-offs between the speed and rigor of marketing research. Despite the obvious advantages, a recent study of marketing researchers at leading U.S. product and service companies found that only 31% had conducted research using the Internet. More than two-thirds never conducted an Internet study, and these were among the heaviest and most sophisticated users of marketing research. The encouraging news is that 100% of those companies that tried an Internet study said they planned to conduct future projects on the Internet, according to a Data Development Corp. survey of 75 heads of marketing research at top U.S. firms in May 1998. The remaining two-thirds need to get onto the Net, and other companies that feel they don’t have time for traditional marketing research should carefully examine the potential of these new approaches to deliver meaningful results more quickly.

**TAKING AN INTEGRATIVE APPROACH**

Marketing research, like many other management disciplines, has created its own silos. Marketing researchers, by artificially distinguishing among types of marketing research approaches (such as qualitative vs. quantitative) and in separating themselves from other information, miss a huge opportunity to produce more effective results and have a bigger impact on the firm. Among these divided processes that need to be brought together are:

1. **Qualitative and quantitative:** Many firms make a distinction between qualitative research (such as focus groups) or quantitative research (large-scale empirical studies). Some companies use qualitative studies initially to help form questions and structure follow-up quantitative studies, but many firms use either qualitative research alone or rely only on overly structured quantitative studies. Market researchers need to break these silos to help integrate qualitative and quantitative research throughout the process (i.e., incorporate open-ended, qualitative questions into large-scale studies and analyze them in a quantitative fashion). Many marketing research firms hesitate to include qualitative questions in large-scale studies because they find it more difficult to analyze them. Firms usually use such questions in only qualitative studies. With a little more effort, however, these open-ended questions can be used in quantitative studies.

2. **Marketing research and modeling:** Modeling often is conducted separately from marketing research. But it would be far more effective to design integrated projects based on both appropriate research and modeling. For example, advanced work in conjoint analysis integrates the results of the marketing research phase with simulations and optimization models.

3. **Marketing research and decision support systems:** Decision support systems aren’t often linked to marketing research activities. Marketing research should not be seen as a discrete event but rather a continuous process that provides important marketing information to decision support systems. The research has to be updated constantly and immediately integrated so it can inform company decisions.

4. **Marketing research and adaptive experimentation:** Companies typically use marketing research as part of discrete studies rather than as an integral part of a strategy of adaptive experimentation. Aside from a few exceptions, such as companies in direct marketing or those such as Anheuser-Busch, companies
don’t typically conduct adaptive experiments. But these experiments often provide more marketing knowledge, insights into market response to strategies and initiatives, and more strategic flexibility at a much lower cost than a series of one-shot marketing research projects. Integrating the firm’s adaptive experimentation efforts with its research efforts brings much value.

5. **Market research and databases:** Marketing research usually is conducted on a sample separate from the company’s customer database—an approach that misses a huge opportunity to use the company’s existing data on individual customers. Marketing researchers have dropped the ball in developing these customer databases, leaving data mining to the IT staff. It’s time for marketing researchers to reclaim this territory by better integrating their research activities with the company’s database. This will make the research more valuable and also help to better shape the database by focusing on issues of importance to customers.

6. **Marketing research and other information sources:** Companies have many sources of information outside marketing research that management can use to improve their decisions. This information that is collected separately from the marketing research function may include customer complaints, customer satisfaction studies, product and service quality studies, financial data, customer transaction data, information on competitive behavior, security analysts studies, and external databases. Marketing research can help integrate these diverse sources of data into coherent strategic insights.

**EXPANDING STRATEGIC IMPACT**

The biggest potential in the use of marketing research is not in the effective use of techniques, an integrative approach, or in the use of new information technology. Rather, it’s in helping management ask the right strategic questions by giving marketing research a more central place in shaping corporate strategy. Marketing research needs to be recognized as part of the organization’s knowledge-creation process. In a dramatically changing global environment, business leaders need constant contact with the market to make the best decisions. Marketing research firms often collect data in standardized or simplified forms rather than constructing more strategic measures. For example, companies that measure market share often neglect to ask the deeper questions such as: What is the market? Should the company look at global market share, and if so, should it focus on dollars or units, and at what exchange rates? Within that market, should the company look at the share of the total market or the “share of wallet” of its current customers? How can the company get more from its total spending? (See the example below.)

Coca-Cola, in its 1998 annual report, takes a more strategic view of its marketing measurements. Instead of merely reporting its market share of the global soft drink market, it looks at the potential of the total global beverage market, including coffee, tea, and water, and asks how it can increase its share of this broader market. This

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**The myth of market share**

An example of marketing information’s oversimplified use is the traditional approach to market share. Market share as a bald number is almost meaningless. Consider four competitors, shown below. Each has 10% market share. What strategic information does share give you? Almost none. Who will control the market? To give the share any meaning, the intelligence should be added to the shares by looking at the factors that shape the future share of the market. These include numbers of first-time buyers, average number of units purchased, number of repeat buyers, average number of units per repeat buyer, and total unit sales of each brand. These richer numbers are not so simple to deal with as basis market share, but they tell you much more. Instead of showing how the market is divided up today (reflecting past performance), they provide insights into where it’s headed. More sophisticated measures offer a deeper understanding of the market.

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<th>Av. No. of Units Per Repeat Buyer</th>
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The biggest potential in the use of marketing research is . . . in helping management ask the right strategic questions.

is a marketing research decision with tremendous strategic implications. The shift in measures implies a very different focus for the company. Instead of looking at ways to compete with Pepsi, it now asks how it can replace British “tea time” with a “Coke time” or substitute a “Coke break” for a “coffee break.” The strategic use of marketing research—asking the right questions—leads to fundamentally important insights and directions for the company.

Marketing research also can be used to inform global strategy, but less than half of researchers at major U.S. corporations have conducted international studies. According to the 1998 Data Development survey, 57% of researchers have conducted no international studies at all, and most of those who did such studies devoted less than 20% of their budgets to them. This is a shocking result, given that amount of resources and attention major corporations are devoting to global markets. If these companies are not conducting international marketing research studies, on what basis are they developing strategies for entering global markets?

In a knowledge-based company, the role of marketing research is to develop knowledge about the market and therefore generate value for shareholders. Market research also can help a company understand customers, identify new potential opportunities, and shape the strategic direction of the firm.

Marketing research also could be used to inform strategic decisions such as mergers and acquisitions strategy, in which it could be used to assess the value of the acquisition, potential synergies, and the strength of the customer franchise being acquired. Some of the more sophisticated investment bankers are including, as part of their due diligence, discussions with customers, former customers, and occasionally prospects. Yet many of these inquiries are informal discussions rather than systematic marketing research.

Many other management problems can benefit from quantitative insights into the needs of consumers and other stakeholders. Increasingly, companies are recognizing the importance of creating value for these stakeholders but are slower to see how marketing research can provide the information needed to act upon these intentions. In a fast-moving, global environment, careful studies are even more important as companies find themselves in foreign markets where they have little history and where managers cannot rely on their instincts. The companies that commit to reinventing their marketing research and developing capabilities to implement it well will have a significant advantage over rivals.

Marketing research can play a broader role within and throughout organizations. New relationships between manufacturers, suppliers, and customers create the need for the broader application of marketing research. With direct information about customers purchasing its products in Wal-Mart stores, for instance, Procter & Gamble Co. may understand the retailer’s customers better than it does. This gives P&G a unique opportunity to use that marketing information, but also means it needs to do so to remain competitive. Similarly, Intel Corp. needs to focus not only on its direct customers such as Dell Computer Corp., but also on its customers’ customers—the end users of its computer products. More types of companies need to use marketing research effectively to diagnose problems and needs of customers, prospects, and other participants in the global supply chain and to test the viability of alternative solutions for them.

THE CHALLENGE: REBUILDING TRUST

Instead of stripping down the marketing research function, market researchers need to give it a more central role by connecting it more closely to strategy processes and information technology initiatives. If marketing researchers and the organizations in which they work begin to make these changes, they can transform market research’s role.

If marketing researchers expect to be given a more strategic role in organizations, however, practitioners need to do more to prove themselves worthy of that trust. Marketing researchers, much like physicians, need to develop an independent system of certification to assure clients they’re qualified to do the research effectively. The current lack of certification makes it harder for the best marketing research firms to differentiate themselves, and it perpetuates mediocre or poor research, eroding the entire profession.

As part of this certification, some type of continuing marketing research education is needed. With the development of new tools and technologies, a person trained five or ten years ago in research techniques may be missing important
innovations or insights in new tools or practice. An ongoing certification process would assure clients that marketing research firms are working with the most current and effective approaches.

Such a certification process will lead to increased accountability for marketing researchers. If marketing research professionals don’t take up the certification issue on their own, the courts will. Already, a company filed a court case against a marketing research firm that grossly overestimated the potential market for a new product. If the industry does not set its own standards, companies will enforce their own de facto standards through the legal system.

Trust is at the heart of the doctor-patient relationship, and it’s also critical to successful marketing research. Certification, continuing development, and other initiatives on behalf of the marketing research community can rebuild trust among customers. For marketing researchers to work with clients in developing accurate diagnoses to their challenges, the profession needs to take steps to build this trust. And with this trust, a focus on diagnosis, the use of the latest information technology, increased integration, and a more strategic focus, marketing research can rise to its full potential in contributing to building value for a firm.

**ADDITIONAL READINGS**


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