

Chapter 3: Marketing Research

Chapter Objectives

After reading this chapter, students should understand:

- Major functions of marketing research
- The research process
- Primary and secondary data sources
- Qualitative and quantitative research
- Applications of marketing research
- Impact of the Internet on marketing research

Chapter Overview

This chapter provides an introduction to marketing research. It focuses on primary and secondary research, qualitative and quantitative research and provides examples of applying marketing research in market potential estimation and forecasting.

Chapter Outline and Key Terms

Key Terms:

- Marketing research
- Research process
 - Problem definition
 - Information needs
 - Type of study or research
 - Data collection,
 - Data analysis and Conclusions
 - Reporting
- Secondary information sources
- Primary information sources

Definition: Market Research: *the function that links the consumer, customer, and public to the marketer through information used to identify marketing opportunities and problems, generate and evaluate marketing actions, monitor marketing performance, and improve understanding of marketing as a process.*

A. Three Major Functions of Marketing Research (Table 3.1):

- Scanning for opportunities and threats

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- Risk assessment of future programs
- Monitoring of current programs.

B. Marketing Research Is Commonly Used to:

- Forecast sales of existing and new products
- Refine new product concepts
- Describe a new strategy for an existing product
- Understand competitors
- Identify market segmentation opportunities
- Understand how customers in different market segments make buying decisions
- Evaluate how customers in the target audiences react to various advertising messages and executions
- Determine what price to charge
- Understand how satisfied customers are with the product and the company

C. The Research Process: Six steps of the process are:

- Problem definition: What is the problem to be addressed?
- Information needs: What kinds of information are most appropriate for solving the problem:
- Type of study or research: What types of studies and data are needed for solving the problem?
- Data collection: What are the specific data and information sources?
- Data analysis and conclusions
- Reporting: A report on the findings to the appropriate organization and groups.

(Figure 3.1) Overview of the Marketing Research Process details the 6-step process into 10 key elements of research.

Data Sources

Key Terms:

- Qualitative research
 - Phenomenological
 - Exploratory
 - Clinical
 - Focus group
- Quantitative research
 - Surveys
 - Virtual shopping
 - Panel
 - Manipulation
 - Control group
- External validity and internal validity
- Laboratory experiment and field experiment

Two Types of Data Sources

- Secondary
- Primary

Secondary Data Sources

- **Two types of secondary data sources:**
 - Internal secondary data
 - Secondary data can be located internally, within the organizations. Examples of secondary data can be internal data sources are marketing plans and strategic plans.
 - External secondary data
 - Secondary data can be external. Examples of secondary external data sources are; the Internet, trade associations, general business publication, trade publications, academic publications, corporate reports, government publications.

Table 3.2 Marketing Research Data Sources makes the distinction between the secondary and primary data, and observations and experiments.

Primary Data Sources

- Two types of primary data sources (**Table 3.4**):
 - **Qualitative**
 - Market research that usually involves samples of customers and produces information that by itself does not directly lead to decisions but is valuable as an input for further research.
 - Types include:
 - *Phenomenological* (Understanding how the products are used in everyday life.)
 - *Exploratory* (Generates hypotheses for further research.)
 - *Clinical* (Explores reasoning behind purchasing behavior.)
 - Examples include:
 - Focus groups: Small groups chosen for their membership in various target groups of buyers.
 - *Illustration*: Splenda (www.splenda.com, **Page 70.**)
 - Observations and ethnographic research: Observing the potential buyer in a specified setting
 - *Illustration*: In-store Video Monitoring (**Page 70.**)
 - *Illustration*: Campbell Soup (www.campbellsoup.com, **Page 71**)
 - **Quantitative**
 - Market research that typically involves statistical analysis of data, where the intent is to provide descriptive results or explicitly test a hypothesis.
 - Types include:
 - Surveys
 - Personal interviews
 - Telephone interviews
 - Mail surveys
 - *Illustration*: Net Promoter Survey (**Page 74.**)
 - Additional types include:
 - Panels
 - Experiments
 - Models and simulations
 - Global Considerations
 - Main criteria for evaluating survey alternatives (**Table 3.6, Page 73**):
 - Cost
 - Control
 - Response rate
 - Potential for interview
 - Bias

- Time to obtain data
- Flexibility

Potential and Forecasting

Key Terms:

- Potential
 - Forecasts
 - Scenario planning
 - Naïve extrapolation
 - Sales force
 - Executive opinion
 - Delphi method,
 - Market testing
 - Market survey
 - Moving average
 - Exponential smoothing
 - Extrapolation
 - Correlation
 - Regression analysis
 - Leading indicators
 - Econometric models
- **Potential:** The maximum sales of a product category reasonably attainable under a given set of conditions within a specified period of time.
 - **Market Forecast:** A prediction of a future quantity such as sales extrapolation. Extending a line based on existing data outside the range of the date.
 - **Market Potential:** The maximum sales reasonably attainable under a given set of conditions within a specified period of time.
 - **Basic Calculations**
 - Estimating Market Potential
 - a. Determine the potential of buyers or users of the product
 - b. Determine how many individual customers are in the potential groups of buyers defined in step 1.
 - c. Estimate the potential purchasing or usage rate
 - d. Illustration: Disposable Diapers (Table 3.7 Market Potential Illustration Page 79.)
 - Sales Potential
 - a. Category Development Index (CDI) =

$$\text{CDI} = \frac{\% \text{ of the category sales in a geographic area}}{\% \text{ of the country's population in the area}} \times 100$$
 - b. Brand Development Index (BDI)

- Forecasting
 - a. Forecasting important in strategic planning process in the situational analysis is to use forecasting. (Table 3.9 Summary of Forecasting Methods, Page 82)
 - b. Judgment methods—Naïve extrapolation, sales force, executive opinion, Delphi method
 - c. Counting methods—market testing, market surveys
 - d. Time-series methods—(**Table 3.8, Page 81.**) Moving average, exponential smoothing, extrapolation
 - e. Association/causal methods—correlation, regression analysis, leading indicators, econometric

Teaching Tips and Strategies from Barbara S. Faries, MBA

This chapter lays the foundation of a basic understanding of market research and its role in corporate marketing and strategic decision-making. It introduces the student to market research terminology as well as the basics of calculating market potential and forecasting techniques.

Key Terms and Concepts Introduced Include:

- Marketing research
- Research process
 - Problem definition
 - Information needs
 - Type of study or research
 - Data collection
 - Data analysis and Conclusions
 - Reporting
- Secondary and primary information sources
- Qualitative and quantitative research
- Market potential and market forecast
- Forecasting

Note: Two recurring themes in this Instructor's Manual will be the first two items:

- Link theory to practice.
 - Engage students to link work experience to the concepts demonstrated in the text.
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- Instructors are encouraged to link theory to practice by finding current examples in the corporate environment that demonstrate the key concepts above.
 - If your class contains those already working in the field, have them describe how the concepts in theory match those in the actual workplace.

Few students will enter the market research field as a profession. However, almost all will be exposed to marketing research within their corporations regardless of their function (marketing management, product management, sales, sales promotion, marketing communications, product development, etc.) Most will be expected to understand the critical role marketing research plays in a successful organization. Most will also be expected to understand the meaning of market size, market potential, and sales potential as well as forecasting.

Students often have a difficult time with the following:

- The meaning and differences of qualitative research versus quantitative research
- The meaning and differences of primary research versus secondary research

Suggested ways of addressing the above would be to use “real life examples” of situations where qualitative research was used versus quantitative research. (The recent US Census would be an excellent example of primary research as well as quantitative research.)

This offers some excellent basic information on market sizing, market potential, and forecasting. Students often reach graduate level or become marketing professionals without having been exposed to these concepts. Most have never learned to calculate market potential or forecast.

Suggested ways of linking theory to practice would be to develop to develop some example where the students actually calculate market potential and forecast sales. NOTE: In developing your examples, I suggest developing a business-to-business example as well as a consumer example. A simple formula that proves helpful in calculating basic market potential is:

Formula for Determining Basic Market Potential

$$Q = nqp$$

Q = Total Market Potential

n = Number of buyers in specific product/market under the given assumptions

q= Quantity purchased by average buyer

p = Price of product

Review Questions

1. *Suppose that McDonald's was considering bringing a new kind of hamburger to its stores. What kind of research would it need to do in order to have some confidence that the new product would sell well?*

McDonalds should conduct focus groups to see what type of hamburger Americans wanted. They might want to make sure that the hamburger Americans want is the one they are intending to launch. McDonalds could also conduct market testing to forecast the demand for the new product or market surveys. I would also take into consideration how well the new hamburger fits with McDonald's menu. Recall how the Arch Deluxe was applauded by consumers/press yet it did not sell well due to its taste.

2. *I'm interested in finding out if the demand for this textbook (new, not "pre-owned" copies) is sensitive to higher or lower prices. Design an experiment that you could run in the campus bookstore to determine this.*

To conduct this experiment I would take two groups of students and send them to the bookstore weeks before class started. I would have a sale on the book about a month before class starts. If more students bought the book earlier than needed I would conclude that they felt lower prices were better and help sell more books or vice versa. To be fair, I have found that students will buy whatever book is required for class. They seem to feel they have no choice, and will purchase the book at a higher price so as not to get behind in class.

3. *Pick a product that is used in everyday life. Observe your roommate, spouse, or some other person's use of this product. Ask him or her questions about their brand loyalty, what they like/dislike about it, and anything else you want to know. How does this information obtained differ from what you would get if you administered a survey?*

This is a good question to encourage students to discuss in class. The answers will vary. You would be looking for a student to convey information gained from the interview to have lots of different answers etc. due to the nature of the standard survey only asks for certain responses regardless of how the person answers previous questions. In an interview, a person has a dialogue and can ask for rewording of a question if they do not understand the original question. Also, during the interview process it is important to note that the way our nonverbal signals can help to bias the information from the subject (they tell us what we want to hear).

4. *Suppose that Microsoft was introducing a new PC operating system to replace Windows 7. What kind of research would it need to do in order to have confidence that the new software would sell well?*

Microsoft would want to conduct some type of exploratory research to determine if a market for their new software would exist. They might also access customer feedback

and customer service data to determine the need in the marketplace. More than likely, they will also talk to PC manufacturers and other customers to determine whether or not the new operating system will be acceptable to them. Finally, most software manufacturers would conduct a beta test of a group of developers, users, or even PC manufacturers to determine product usefulness, problems, or to eliminate bugs.

You can point out to the students that the company would not only collect consumer data but also data from their business-to-business customers (PC manufacturers, etc.) The beta test is a good example of a type of “experiment” to test the software before introducing to the marketplace.

5. *What are the tradeoffs between all the kinds of research described in this chapter? Suppose you worked for a small startup company with a small research budget. Which of these kinds of research would be the most valuable?*

Students would probably want to refer to *Table 3.6* and consider panels, focus groups, surveys and experiments to answer this question. Panels provide both cross-sectional data and time-series data. Panels can be useful for longitudinal data. Panels have a dropout rate over time and maintaining interest of those on the panel can be difficult. Panel conditioning and having an unrepresented type sample can all be problems with the panel method of research. Experiments can show causality but need experienced level staff to conduct as well as design the experiment to make sure it is statistically validity and reliability. If the company were a small company they would probably want a low cost approach. Such as a mail survey or an Internet survey. The startup company would probably want to know some demographic information about their potential clientele and sales. The company could consult a secondary data source for demographic information. Then they could estimate their market potential and forecast sales.

6. *Other than forecasting sales, what other uses are there for forecasting methods?*

Another use for forecasting methods is for the purpose of production planning, market share, financial forecasts, and scenario planning.

Exercises, Activities, and Projects

Purpose: To help students link theory to real life.

- Have the students develop a market research plan for products or services they select. Use a business-to-business example and a business-to-consumer example.
- Develop and use an example in which they will calculate market potential, sales potential, and forecast sales. (Students may use examples from their workplace.)