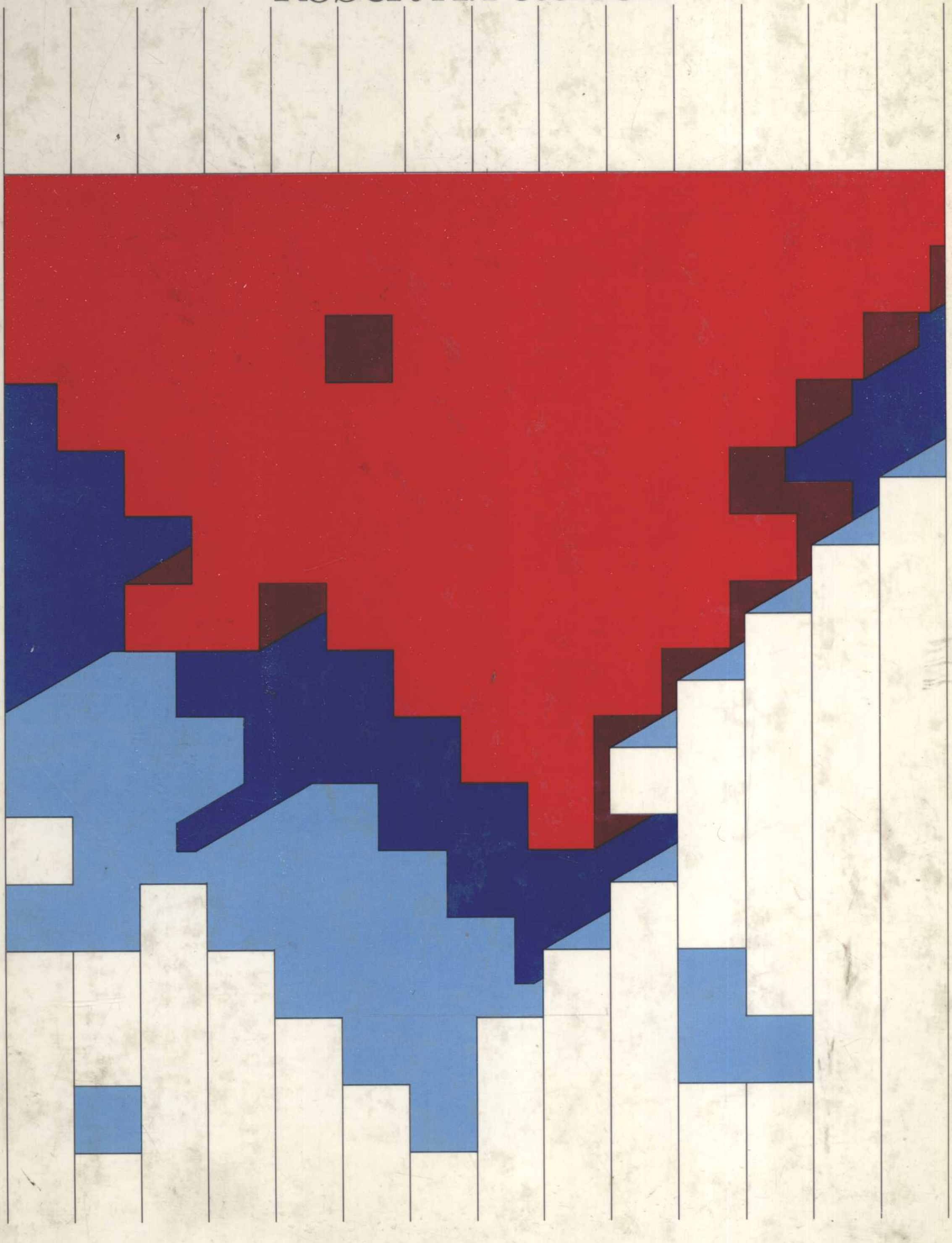
MARKETING RESEARCH

Robert A. Peterson



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Robert A. Peterson
Department of Marketing
Graduate School of Business
University of Texas

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Consulting Editors in Marketing

Robert E. Witt and Mark I. Alpert
Both of The University of Texas at Austin

To my family

Preface

During the past decade most marketing research texts have considered their subject matter from the perspective of "what do people who will use marketing research, but not conduct it, need to know?" As a result of this perspective, marketing research textbooks have tended to consist of generalized discussions of the research process, together with selected "principles" in functional areas such as questionnaire design, sampling, and data analysis. Frequently, these texts have supplemented their general coverage with such "managerial" topics as marketing information systems and Bayesian approaches to information evaluation.

A characteristic that differentiates *Marketing Research* from other current texts is its emphasis on the practical issues relating to successfully conducting and applying marketing research. The usual marketing research "principles" are presented, but they are thoroughly integrated so that a detailed sense of involvement in marketing research is obtained. Specifically, the emphasis of this book is on the *strategic* and *tactical decisions* that need to be made when conducting marketing research. Although managerial topics such as marketing information systems and Bayesian approaches are not ignored, they are downplayed because of their marginal usefulness in the majority of on-the-job marketing research decisions.

Objectives

The objective of this book is to provide an in-depth treatment of marketing research in an *applied* context. This is done by continually emphasizing two features of marketing research. One feature is that applied marketing research is *outcome-oriented*. All marketing research activities must be directed toward providing actionable decision information. The second feature is that marketing research consists of a number of *interrelated decisions*. In each stage of the marketing research process decisions must be made that will impact upon and even determine decisions to be made in succeeding research stages.

Marketing Research is primarily designed to be used in a junior- or senior-level marketing research course. When used in conjunction with the student guide it provides valuable "hands-on" experience in conducting and applying marketing research. Additionally, by incorporating the suggested readings at the end of each chapter into a course as supplemental material, the book can be used in a graduate-level marketing research course. Finally, because marketing research is really applied behavioral research, the book can be easily used in advertising research, communications research, and general business research courses. Research methods, techniques, and examples are drawn from a variety of nonmarketing as well as marketing sources. Hence the book should be applicable in numerous people-oriented research domains.

Organization

Marketing Research contains 19 chapters. The first chapter is an introduction to the relationship between decision making and information. Chapter 2 describes the nature and scope of marketing research. Chapters 3 through 18 are organized around major activity stages in the marketing research process. They begin with the identification of a marketing problem or opportunity, systematically discuss the management of marketing research, and conclude with the preparation and presentation of a marketing research report. The final chapter describes recent and future directions of marketing research as well as discussing ethical issues in marketing research.

Each chapter begins with a "law" or "principle." Personal experience in marketing research should verify their existence and implications. Following the textual material are suggested readings, review questions, and discussion exercises. Suggested readings are of two types. Some readings provide detailed coverage of the material presented in the text while others extend the textual material or give access to topics not discussed in the text. The purpose of the review questions is to provide a systematic framework for synthesizing the various topics described in the text. All of the discussion exercises have been drawn from actual research experiences (names, organizations, and so forth have been disguised to protect the guilty). Their purpose is to encourage the creative transfer and application of concepts discussed in the text to "real-world" situations.

Acknowledgments

Countless people have contributed either directly or indirectly to *Marketing Research*. Among the most prolific contributors (and voracious critics) are my former and present students, most of whom at one time or another were subjected to the materials in the text.

Insightful comments and constructive evaluations of the book were contributed by Professors Mark Alpert, Linda Golden, Roger Kerin, Robert Lusch, Barry Mason, Marsha Richins, and Subhash Sharma, as well as anonymous reviewers.

Because the book was in process for so long, it went through several sets of assistants. Among the most helpful were Galen Bollinger, Gary Brown, Susan Madden, Sally Mitchell, and Christian Pfister. Cathy Cobb was responsible for the cartoon drawings. To all of the above I offer my grateful appreciation for their assistance above and beyond the call of duty or friendship. Finally, I would like to express my appreciation for the support and guidance of George Kozmetsky.

Conducting marketing research is an exciting and enjoyable experience because it is a creative mixture of art and science. It is also a tremendous learning experience. Writing a marketing research textbook is considerably less exciting and enjoyable. It is, though, a tremendous learning experience. I hope you will learn as much from reading this book as I did in writing it.

Robert A. Peterson

Contents

chapter 1

Decisions and information

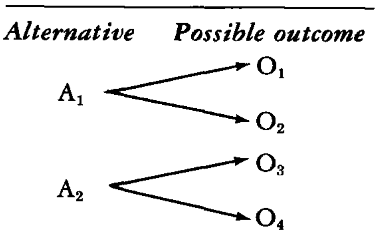
A decision made without proper information is a decision likely to be incorrect.

Introduction

Decisions! Decisions! Decisions! Big decisions and not-so-big decisions. Hard decisions and easy decisions. Routine decisions and one-time decisions. Everyone makes decisions—whether or not they are termed as such—every day, whether at work or play. Sometimes a decision may be correct, as when Chevrolet management decided to mass-produce J cars. In other instances a decision is not correct. Green Giant introduced a line of vegetable yogurts (cucumber, beet, and so forth) in 1975, only to withdraw it from the market after a few months due to a lack of sales.

Frequently the correctness of a decision is never known. During the Iranian crisis in 1979, Shell Oil was forced to purchase crude oil on the international spot market. Because of price increases due to panic buying, Shell management had to make a decision: should the company continue to purchase crude oil on the spot market for prices that resulted in a loss of $4 per barrel when resold, or should it refuse to buy crude oil. If the company refused to purchase crude oil, management was concerned that consumers would become angry and the reputation of the company as a reliable supplier would be irreparably damaged. Ultimately, management decided to continue purchasing crude oil, and the company lost between $50 million and $70 million in profits by the end of the crisis.[1]

Generally, a decision situation exists when a choice must be made between two or more alternative courses of action, each of which has some degree of uncertainty or risk associated with its outcome. The relationship between alternatives can be visualized by means of a *decision tree:*



This decision tree indicates that a decision maker is faced with two alternative courses of action, and each course of action has two possible outcomes associated with it. Uncertainty exists because the decision maker does not know exactly which outcome will occur if a particular alternative is selected. Without alternatives, a decision situation would not exist since no choice would be necessary; there would be only one feasible course of action. The

[1] "Inside the Shell Oil Company," *Newsweek,* June 15, 1981, p. 73.

process of selecting a specific course of action from among a set of action alternatives is *decision making*. This process is essentially the same despite the context, purpose, or nature of the decision being made.

Although decision making is a universal characteristic shared by all individuals, it is most frequently considered in a *managerial* context. Conceptually, *management* is a process of resource allocation, normally within an organization. In particular, it consists of a variety of tasks including planning, staffing, organizing, and controlling. As such, the primary activity of a manager is decision making. This is true whether the manager's functional responsibility lies in finance, production, personnel, or marketing. And it is true regardless of a manager's level in an organizational hierarchy—whether an individual is chief executive officer or group supervisor—or whether the manager occupies a line or staff position. Indeed, Nobel laureate Herbert Simon, in a now classic book, defined managing and decision making as one and the same.[2]

This chapter is a brief introduction to decisions and decision making in the context of marketing management. Included in the chapter is a discussion of the relationship between information and decision making. Also included are several criteria for evaluating the usefulness of information in decision making. The chapter concludes with a description of the role of a marketing information system (a system for managing decision information) in marketing decision making.

Decision making in marketing

Philosophically, marketing has as its goal the creation of exchange relationships that are mutually beneficial to the parties involved in the exchange.[3] At an operational level, the task of marketing is to achieve the goal of exchange by attracting and retaining those customers most relevant to the organization. This is so whether an organization is a for-profit or not-for-profit organization, whether its offerings are products or services, or whether its customers are consumers or institutions.

Marketing management can in turn be viewed as the process by which attraction and retention are accomplished. Specifically, marketing management consists of

Identifying, evaluating, and selecting target publics.

Formulating and directing combinations of activities designed to stimulate exchange with these target publics.

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[2] Herbert A. Simon, *The New Science of Management Decision* (New York: Harper & Row, 1960).

[3] Richard P. Bagozzi, "Marketing as Exchange," *Journal of Marketing*, October 1975, pp. 32–39.

Both of these require the allocation of organization resources. The combinations of activities are commonly termed *marketing mixes* and consist of pricing, promotion, distribution, and product-offering activities. Virtually all marketing management texts provide in-depth discussions of them as well as their interrelationships.[4]

The marketing management process is simultaneously subject to two major types of constraints—internal constraints and external constraints. Internal constraints refer to the capacities of an organization's resources, both human and financial. Collectively these constraints form the "distinctive competency" of an organization. External constraints consist of various external environments of the organization such as the competitive situation, governmental regulations, and the markets into which organization activities are directed. Internal constraints are typically considered controllable factors while external constraints are considered uncontrollable factors.[5]

There are three broad levels of marketing management decision making: strategic, tactical, and operational. Strategic decision making is usually considered to have a time frame of three years or greater and involves major, long-term commitments of an organization's resources. An example of a strategic decision is one made by Sears to change its marketing approach in the 1970s. Sears variously attempted to be a discount store and a fashion-oriented department store, with disastrous results, before returning to being "just plain Sears" again. As Sears management and the management of countless other firms have realized (to their chagrin), a strategic "error" can be very costly.

Tactical decision making usually covers a one- to three-year time period. The recent decision of Sears management to test a video cassette version of their catalog is an illustration of a tactical decision. Finally, operational decision making relates to day-to-day and short-run decisions; reducing prices on outdated merchandise at a particular Sears store would be an example of this type of decision making. As might be expected, decision levels approximately parallel management levels, and the consequences are more difficult to foresee the higher the level. Strategic decisions tend to be made at high management levels (e.g., vice president level or above), tactical decisions by middle management, and so forth.

While the effect of decisions at each level may differentially impact on an organization, nonetheless they share several commonalities. All managerial decisions consist of the same general decision stages. This is true whether

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[4] See, for example, Philip Kotler, *Marketing Management,* 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1980).

[5] Roger A. Kerin and Robert A. Peterson, *Strategic Marketing Problems,* 2d ed. (Boston, Mass.: Allyn & Bacon, 1981), pp. 1–14.

the decision is strategic—bank management determining whether it should offer interest-paying checking accounts; tactical—deciding if these checks should contain the picture of the user; or operational—determining how many bank personnel should be made available for opening new customer accounts.

A second characteristic common to all marketing decisions is that, as in all decision making, they consist of choosing among alternative courses of action. The number of alternatives may range from two ("Yes, we will offer interest-bearing checking accounts," "No, we will not") to many ("We probably need to add between 1 and 10 new employees to handle the influx of new checking accounts"). Because marketing is the bridge or interface between an organization and its external environments, marketing managers are often faced with relatively more difficult decisions than their counterparts in other functional areas of the organization.

This is due to the fact that marketing decision makers are usually faced with uncontrollable and, hence, unpredictable decision factors (competitive actions, economic conditions, marketplace vagaries). As a consequence, not only is the time available for decision making typically short but the number of feasible alternatives is also oftentimes large (sometimes it is even difficult to insure that all are being considered), and the uncertainty associated with various decision outcomes is also frequently large.

The key to effective decision making—whatever the decision realm—is information. Stated succinctly, good information is a prerequisite for good decision making. Because of its characteristics, this is especially true for marketing decision making. For this reason the relationship between information and effective decision making is discussed in some detail.

Information and marketing decision making

Information is increasingly being viewed as one of the primary resources of an organization.[6] As such, successful decision making in marketing requires the effective management of information. The purpose of information is to facilitate decision making and make it more effective. Information can accomplish this by assisting in the formulation of alternatives and/or reducing uncertainty. If "perfect information" existed, decision making would be relatively simple since all alternatives and outcomes would be known (or could be enumerated) exactly. However, it is important to note that information cannot guarantee that all feasible alternatives are being considered, nor can information completely eliminate uncertainty. Likewise, information does

[6] Kotler notes that an organization has five major resources to be managed: money, materials, machines, manpower, and information (*Marketing Management,* p. 601).