CHAPTER 4: CONDUCTING MARKETING RESEARCH AND FORECASTING DEMAND

DEF. Marketing research is systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company.

Marketing research is not limited to large companies with big budgets and marketing research departments. At much smaller companies, marketing research is often carried out by everyone in the company—and by customers, too.

Companies normally budget marketing research at 1 to 2 percent of company sales. A large percentage of that is spent on the services of outside firms like Syndicated-service research firms, Custom marketing research firms, Specialty-line marketing research firms.

Small companies can hire the services of a marketing research firm or conduct research in creative and affordable ways, such as: Engaging students or professors to design and carry out projects, Using the Internet, Checking out rivals.

THE MARKETING RESEARCH PROCESS:

- Define the problem and research objectives
- Develop the research plan
- Collect the information
- Analyze information
- Present the findings
- Make the decision

STEP 1. DEFINE THE PROBLEM AND RESEARCH OBJECTIVES

Marketing management must be careful not to define the problem too broadly or too narrowly for the marketing researcher.

A marketing manager who instructs the marketing researcher to "Find out everything you can..." will collect a lot of unnecessary information. One who says "Find me just that..." is taking too narrow a view of the problem.
STEP 2. DEVELOP THE RESEARCH PLAN

Data sources - The researcher can gather secondary data, primary data, or both. Secondary data are data that were collected for another purpose and already exist somewhere. Primary data are data freshly gathered for a specific purpose or for a specific research project.

Research approaches - Primary data can be collected in 5 main ways: through observation, focus groups, surveys, behavioral data, and experiments.

- **Observational Research** - Fresh data can be gathered by observing the relevant actors and settings. Consumers can be observed as they shop or as they consume products.

- **Focus Group Research** - is a gathering of six to ten people who are carefully selected based on certain demographic, psychographic, or other considerations and brought together to discuss at length various topics of interest. Participants are normally paid a small sum for attending. A professional research moderator provides questions and probes based on a discussion guide or agenda prepared by the responsible marketing managers to ensure that the right material gets covered.

- **Survey Research** - Companies undertake surveys to learn about people's knowledge, beliefs, preferences, and satisfaction, and to measure these magnitudes in the general population.

- **Behavioral Data** - Customers leave traces of their purchasing behavior in store scanning data, catalog purchases, and customer databases. Much can be learned by analyzing these data.

- **Experimental Research** - The most scientifically valid. The purpose of experimental research is to capture cause-and-effect relationships by eliminating competing explanations of the observed findings.

Research instruments - Marketing researchers have a choice of three main research instruments in collecting primary data: questionnaires, qualitative measures, and mechanical devices.

- **Questionnaires** - A questionnaire consists of a set of questions presented to respondents. Because of its flexibility, the questionnaire is the most common instrument used to collect primary data. Questionnaires need to be carefully developed, tested, and debugged before they are administered on a large scale.

- **Qualitative Measures** - Qualitative research techniques are relatively unstructured measurement approaches that permit a range of possible responses. Here are seven techniques employed by design firm IDEO for understanding the customer experience:

  - **Shadowing** — observing people using products, shopping, going to hospitals, taking the train, using their cell phones.
❖ **Behavior mapping**—photographing people within a space, such as a hospital waiting room, over two or three days.

❖ **Consumer journey**—keeping track of all the interactions a consumer has with a product, service, or space.

❖ **Camera journals**—asking consumers to keep visual diaries of their activities and impressions relating to a product.

❖ **Extreme user interviews**—talking to people who really know—or know nothing—about a product or service and evaluating their experience using it.

❖ **Storytelling**—prompting people to tell personal stories about their consumer experiences.

❖ **Unfocus groups**—interviewing a diverse group of people: To explore ideas about sandals, IDEO gathered an artist, a bodybuilder, a podiatrist, and a shoe fetishist.

- **Mechanical Devices** - Mechanical devices are occasionally used in marketing research, galvanometers, tachistoscope flashes, Audiometers, GPS and more...

**Sampling plan** - After deciding on the research approach and instruments, the marketing researcher must design a sampling plan. This calls for three decisions:

- **Sampling unit: Who is to be surveyed?**
- **Sample size: How many people should be surveyed?**
- **Sampling procedure: How should the respondents be chosen?**

**Contact methods** - Once the sampling plan has been determined, the marketing researcher must decide how the subject should be contacted: mail, telephone, personal, or online interview.

- **Mail Questionnaire** is the best way to reach people who would not give personal interviews or whose responses might be biased or distorted by the interviewers. Mail questionnaires require simple and clearly worded questions. Unfortunately, the response rate is usually low or slow.

- **Telephone Interview** is the best method for gathering information quickly; the interviewer is also able to clarify questions if respondents do not understand them. The response rate is typically higher than in the case of mailed questionnaires.

- **Personal Interview** is the most versatile method. The interviewer can ask more questions and record additional observations about the respondent, such as dress and body language.
Online Interview - There is increased use of online methods. There are so many ways to use the Net to do research. A company can include a questionnaire on its Web site and offer an incentive to answer the questionnaire; or it can place a banner on some frequently visited site such as Yahoo!, inviting people to answer some questions and possibly win a prize.

STEP 3. COLLECT THE INFORMATION

The data collection phase of marketing research is generally the most expensive and the most prone to error. In the case of surveys, four major problems arise. Some respondents will not be at home and must be contacted again or replaced. Other respondents will refuse to cooperate. Still others will give biased or dishonest answers. Finally, some interviewers will be biased or dishonest. Getting the right respondents is critical. Data collection methods are rapidly improving thanks to computer and telecommunications technology.

STEP 4. ANALYZE THE INFORMATION

The next step in the process is to extract findings from the collected data. The researcher tabulates the data and develops frequency distributions. Averages and measures of dispersion are computed for the major variables. The researcher will also apply some advanced statistical techniques and decision models in the hope of discovering additional findings.

STEP 5: PRESENT THE FINDINGS

As the last step, the researcher presents the findings. The researcher should present findings that are relevant to the major marketing decisions facing management.

STEP 6. MAKE THE DECISION

The managers who commissioned the research need to weigh the evidence. A growing number of organizations are using a Marketing decision support system (MDSS) to help their marketing managers make better decisions, as a coordinated collection of data, systems, tools, and techniques with supporting software and hardware by which an organization gathers and interprets relevant information from business and environment and turns it into a basis for marketing action.

MEASURING MARKETING PRODUCTIVITY

An important task of marketing research is to assess the efficiency and effectiveness of marketing activities. Two complementary approaches to measure marketing productivity are: (1) marketing metrics to assess marketing effects and (2) marketing-mix modeling to estimate causal relationships and how marketing activity affects outcomes.

Some developments in the financial tools that can be used to measure key marketing assets are described in "Marketing Insight: Seeing the Big Picture and Getting to the Bottom Line in Marketing."

Marketing Metrics is the set of measures that helps firms to quantify, compare, and interpret their marketing performance. Marketing metrics can be used by brand managers to design marketing programs and by senior management to decide on financial allocations.
**Marketing-Mix Modeling** analyze data from a variety of sources, such as retailer scanner data, company shipment data, pricing, media, and promotion spending data, to understand more precisely the effects of specific marketing activities. Although marketing-mix modeling helps to isolate effects, it is less effective at assessing how different marketing elements work in combination.

**Marketing dashboards** - A summary set of relevant internal and external measures can be assembled in a marketing dashboard for synthesis and interpretation. Some companies are also appointing marketing controllers to review budget items and expenses. Increasingly, these controllers are using business intelligence software to create digital versions of marketing dashboards that aggregate data from disparate internal and external sources.

**FORECASTING AND DEMAND MEASUREMENT**

One major reason for undertaking marketing research is to identify market opportunities. Once the research is complete, the company must measure and forecast the size, growth, and profit potential of each market opportunity.

Sales forecasts are used by finance to raise the needed cash for investment and operations; by the manufacturing department to establish capacity and output levels; by purchasing to acquire the right amount of supplies; and by human resources to hire the needed number of workers.

Sales forecasts are based on estimates of demand. Managers need to define what they mean by market demand.

**The Measures of Market Demand**

Companies can prepare as many as 90 different types of demand estimates. Demand can be measured for six different product levels, five different space levels, and three different time levels. Each demand measure serves a specific purpose.

Forecasts also depend on which type of market is being considered:

- The **potential market** is the set of consumers who profess a sufficient level of interest in a market offer.
- The **available market** is the set of consumers who have interest, income, and access to a particular offer.
- The **target market** is the part of the qualified available market the company decides to pursue.
- The **penetrated market** is the set of consumers who are buying the company's product.

**A Vocabulary for Demand Measurement**

The major concepts in demand measurement are market demand and company demand.

**Market demand** for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program. Market demand is not a fixed number, but rather a function of the stated conditions. For this reason, it can be called the *market demand function*. 
**Market forecast** - Only one level of industry marketing expenditure will actually occur. The market demand corresponding to this level is called the market forecast. The market forecast shows expected market demand, not maximum market demand.

**Market potential** is the limit approached by market demand as industry marketing expenditures approach infinity for a given marketing environment.

**Company demand** is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. The company's share of market demand depends on how its products, services, prices, communications, and so on are perceived relative to the competitors'.

Once marketers have estimated company demand, their next task is to choose a level of marketing effort. The chosen level will produce an expected level of sales.

**Company sales forecast** is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment.

The company sales forecast is represented graphically with company sales on the vertical axis and company marketing effort on the horizontal axis.

Two other concepts are worth mentioning in relation to the company sales forecast. A **sales quota** is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort. A **sales budget** is a conservative estimate of the expected volume of sales and is used primarily for making current purchasing, production, and cash flow decisions.

**Company sales potential** is the sales limit approached by company demand as company marketing effort increases relative to that of competitors. The absolute limit of company demand is the market potential. The two would be equal if the company got 100 percent of the market.

**Estimating Current Demand**

**Total market potential** is the maximum amount of sales that might be available to all the firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions. A common way to estimate total market potential is as follows: Estimate the potential number of buyers times the average quantity purchased by a buyer times the price.

**Area market potential** - Two major methods of assessing area market potential are available: the **market-buildup method**, which is used primarily by business marketers, and the **multiple-factor index method**, which is used primarily by consumer marketers.

**Industry sales and market shares** - Company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating their sales. The industry trade association will often collect and publish total industry sales, although it usually does not list individual company sales separately. With this information, each company can evaluate its performance against the whole industry. Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales.

**Estimating Future Demand**

Companies commonly use a three-stage procedure to prepare a sales forecast. They prepare a **macroeconomic forecast** first, followed by an **industry forecast**, followed by a **company sales forecast**.
How do firms develop their forecasts? Firms may do it internally or buy forecasts from outside sources such as marketing research firms, which develop a forecast by interviewing customers, distributors, and other knowledgeable parties. All forecasts are built on one of three information bases: what people say, what people do, or what people have done.

Survey of buyers’ intentions - Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. Because buyer behavior is so important, buyers should be surveyed.

Composite of sales force opinions - When buyer interviewing is impractical, the company may ask its sales representatives to estimate their future sales. Each sales representative estimates how much each current and prospective customer will buy of each of the company's products.

Expert opinion - Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants, and trade associations.

Past-sales analysis - Sales forecasts can be developed on the basis of past sales. Time-series analysis consists of breaking down past time series into four components (trend, cycle, seasonal, and erratic) and projecting these components into the future.

Market test method - When buyers do not plan their purchases carefully or experts are not available or reliable, a direct-market test is desirable. A direct-market test is especially desirable in forecasting new-product sales or established product sales in a new distribution channel or territory.