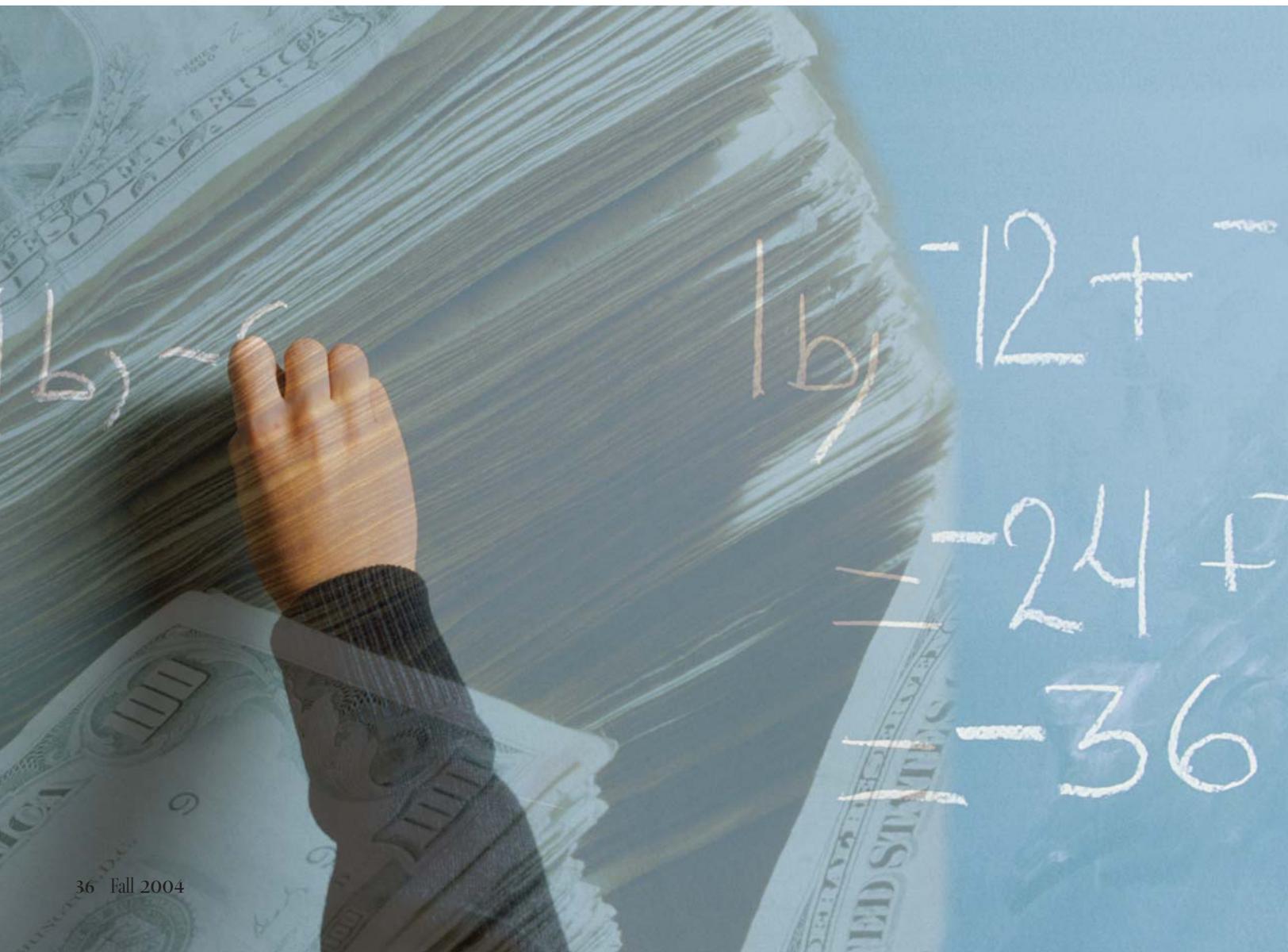


*To be relevant,
marketing research
must be linked to
strategic outcomes.*

Research and





the Bottom Line

By Vikas Mittal

More and more businesses are now concerned with increasing the productivity of their marketing efforts, especially in their marketing research departments. Whereas functions like sales can typically demonstrate their impact on the bottom line via metrics, such as number of leads generated or sales figures, marketing research departments are hard-pressed to provide such proof. Typical marketing research departments are becoming increasingly sophisticated not only through research methodologies employed, but also in terms of the statistical techniques used. Yet their impact or clout within the larger firm has not increased correspondingly. Most managers think marketing research is irrelevant to the firm's ROI.

Top management is increasingly asking why they should be allocating budgets to their marketing research departments. The general perception (true in many cases) is that marketing research departments produce voluminous studies that provide little or no actionable insights, and these studies ultimately rest on bookshelves, never to be retrieved or used by frontline managers. Why is that?

One major factor is that typical marketing research studies focus on variables to which most managers simply cannot relate. Coming from a tradition of psychology, research managers are content to measure variables such as satisfaction, agreement with statements, perceptions, and in some cases behavioral intentions. Such variables have had a venerable tradition in research journals. They are used by academics because they are easy to measure (i.e., they can be administered via a cross-sectional survey) and they can be subjected to a variety of multivariate statistical techniques. For academics who are more concerned with how antecedent factors behave in influencing attitudes or intentions, they serve the purpose well. However, the pervasive use of these same variables in firms' marketing research departments has become an anathema. It has contributed to the perception

Executive Summary

As firms are becoming more concerned with bottom-line metrics like ROI, marketing research is seen as ineffectual in enhancing them. This article argues that marketing research departments can establish their place in the strategic decision making process. This can be accomplished by ensuring that marketing research studies are concretely linked to strategic outcomes like sales, profitability, actual repurchase behavior, and share of wallet—rather than just traditional marketing research variables, such as attitudes and intentions.

of marketing research's irrelevance to bottom-line metrics such as profitability and ROI.

While marketing researchers (and academics) can visualize that variables such as attitudes and intentions can be logically related to customer behaviors, and eventually sales and profitability, the linkages are not as clear to many managers. Even if the logical linkage is clear, the magnitude of that link is not known. The latter can only be done through careful empirical research. Both of these make it hard for managers to accept the results (typically expressed as values obtained from rating scales) of marketing research studies and/or relate them to strategic decisions. How, then, can marketing research professionals address the perception of irrelevance to strategic decisions pertaining to bottom-line metrics such as ROI? I suggest five steps to achieve this goal.

1. Emphasize Actionable Dependent Variables

Is marketing research addressing dependent variables that can be related to bottom-line measures? Managers are becoming increasingly skeptical of marketing research projects because they simply can't relate to the dependent variables. Though dependent variables, such as judgments, attitudes, cognitive responses, and intentions, are used a lot in basic research, they themselves are not actionable. If managers cannot see how they relate to bottom-line metrics with strategic impact—repurchase behavior, market share, brand share, brand equity, profitability, sales, ROI—then they are unlikely to use the research study.

Take the case of customer satisfaction. Most companies track the overall satisfaction of their customer, but very few know how customer satisfaction affects repurchase behavior (not just intentions), sales, or actual word-of-mouth behavior. Absent such metrics, they work in a vacuum, having to assume that satisfaction must have some beneficial impact on the customer base. However, if they have some concrete metrics (e.g., one unit change in satisfaction score increases sales by X%), they will be more likely to use the satisfaction study in their decision process. This task can be accomplished by investing in bridge studies.

2. Conduct Bridge Studies

To address the previously outlined problem, market research departments should take the lead in conducting bridge studies. Bridge studies should relate attitudinal (e.g., satisfaction) and intent variables (e.g., likelihood to recommend or repurchase) to key strategic metrics, such as customer behaviors (e.g., repurchase behavior, complaint behavior, word-of-mouth behavior), marketing metrics (e.g., sales, market share, share of wallet) and financial metrics (e.g., revenues, profitability, ROI). Investment in such bridge studies will provide research users with a better understanding of how the results of marketing research studies, expressed in terms of perceptions, attitudes, and intentions, relate to the larger business issues, which are of broader interest within the firm. Consider the example of an automotive firm that invests millions of dollars to track customer satisfaction. As mentioned earlier, managers in that firm had no measurable idea of how satisfaction affected repurchase behavior for their firm or their industry segment. However, they knew the relationship was positive.

Next year, the research manager (on her own accord) conducted a bridge study to relate satisfaction to actual repurchase behavior and then involved the finance department in assessing the bottom-line impact of changes in satisfaction on sales. The study allowed them to go beyond vague notions such as "satisfaction has a positive impact on repurchase behavior" to concrete specifics such as "one unit change in satisfaction leads to an X% increase in repurchase behavior." This point, though subtle, is important. A bridge study enables managers to develop specific and actionable metrics that relate marketing research outcomes to important business outcomes. Ultimately, the bridge study enabled her to develop a model that related satisfaction to profitability, in addition to sales. Naturally, the marketing research department increased its credibility and clout within the company, not to mention their budget!

In summary, marketing research departments should invest in bridge studies that can link typical attitudinal and behavioral intent variables to quantifiable customer behaviors that matter. However, a caveat is in order. Sometimes if you try to link attitudinal variables directly to financial metrics, you may find null effects if the link is mediated by behavioral variables. For instance, in a study of the banking industry we found that, while there was no direct link between behavioral intentions and profitability, there were strong linkages among behavioral intentions, customer behaviors, and bank profitability.

Thus, some experimentation with statistical models is needed when relating marketing research variables to business outcome measures. Over time, investments in bridge studies can enable a firm to develop comprehensive models of the firm's marketing activities and how these activities fit together. Such comprehensive models can then enable firms to assess how the various research studies fit together.

3. Use Comprehensive Models

Many research departments and research suppliers are busy conducting piecemeal studies to fulfill ad hoc requests here and there, without a big-picture overview of how these various

studies fit together. One study might measure the importance of various attributes in determining satisfaction while another may link advertising exposure to behavioral intention, and so forth. However, comprehensive models that can enable firms to simultaneously assess the impact of various marketing actions are lacking among firms.

Recently, marketing scholars have developed comprehensive models that can provide a blueprint to simultaneously relate various aspects of marketing to bottom-line constructs. For instance, in their book *Driving Customer Equity* (Free Press, 2000), Roland Rust, Valarie Zeithaml, and Katherine Lemon have developed a model that enables a firm to simultaneously assess the impact of brand management, customer service, and customer loyalty programs not just on repurchase intentions, but on eventual customer equity—the financial value of a customer. Similarly, myself, Wagner Kamakura, Fernando de Rosa, and Jose Afonso Mazzon developed a model for the banking industry that shows how actual marketing investments (e.g., in ATMs and bank tellers) affect customer perceptions of service and their behavioral intentions (as measured in a survey). Next, they relate these to not only marketing metrics such as share of wallet and number of transactions conducted by the customer, but also to business metrics such as profitability. Note some key features of both of these (as well as other similar models):

- Both measure traditional marketing research variables such as repurchase intention, but relate them to financial metrics such as customer-lifetime value, share of wallet, average number of transactions, and profitability. The latter set of variables are of interest to a broader set of constituents including top management.
- Both types of models simultaneously incorporate a broad set of marketing mix variables. The model by Rust and colleagues incorporates brand equity, service, and pricing while the model by Kamakura and associates incorporates physical inputs such as ATMs and parking spaces, as well as human inputs such as number of tellers and managers at a bank branch.
- Both types of models simultaneously estimate several relationships so the effect of a marketing action can be traced to not only marketing research variables but also strategic metrics such as profitability.
- Both types of models meld survey data with internal metrics (e.g., cost of marketing factors, accounting measures of profitability, sales figures, and so forth).

Such models are gaining increasing acceptance among top managers who use them to gauge marketing efforts, as well as how these marketing efforts affect strategic metrics. By

GoZing p/u

taking the lead in developing such models, marketing research firms and departments can increase their strategic impact and visibility.

4. Focus on Effect Sizes

For marketing research studies to be incorporated in decision making, there is a need to use statistical techniques that not only estimate the nature of the relationship (i.e., positive or negative relationship) but also the magnitude of the relationship (i.e., strength of the relationship). The latter is especially important for managers who want to do “what if” analysis or be able to quantify the effect of marketing actions. The implication is a need to move beyond simple univariate and bivariate analyses to multivariate analyses. In other words, we should stress methods that compute the magnitude of the effect—not just the significance of the effect.

I’m not arguing that we should use complex statistical techniques just for the sake of complexity. Rather, techniques that provide actionable information should be used. For instance, suppose we have data on customer satisfaction and loyalty as measured by the share of wallet (thousands of dollars) of a mutual-fund company’s customer base. Simply saying that they are highly correlated (say at .85) is not actionable. However, using regression analysis (that controls for the effect of other factors), we may estimate a coefficient of .36. Then we can make a statement: For every unit change in satisfaction, share of wallet increases by \$3,600. Compared to the former, the latter analysis is a lot more actionable. Top management can use this to estimate the change in overall deposits based on changes in customer satisfaction. They can also use this to set their budget for customer satisfaction improvement programs.

A related point is also that research managers need to move beyond simple statistical significance and focus on the magnitude of the effect. Once some effect has been deemed statistically significant, spend time helping your client understand the practical implications of the result. Does the difference of 6.25 vs. 6.32 in satisfaction ratings translate into meaningfully different patterns of actual share of wallet? Can the firm enact different marketing strategies for the two segments to influence customer behavior? Do the two segments differ on strategically important variables such as profitability? If yes, then the statistically significant difference is also actionable, and hence meaningful. Otherwise, the statistical significance has no practical significance, and may as well be ignored.

5. Design Research for Action

Within the scope of these guidelines, take steps to design research projects with an action orientation or implementation focus. Almost two decades ago, Alan Andreasen wrote an article for the May-June 1985 issue of *Harvard Business Review* entitled “Backward Marketing Research.” In it, he gave practical guidelines on how to ensure that marketing research projects get used, rather than ending up on bookshelves. Those guidelines are just as relevant today as they were two decades ago. Chief among them include:

Begin with the end in mind. Determine what actions you will take and then design the research project to inform those actions.

Actionability, the ability of the research user to act, should be the gold standard for measuring the relevance of a project.

Prepare mock-up charts and tables before the project begins. Ask your client to verbalize how their actions will be different based on different values in the charts and tables. If they will act no differently, then the results, no matter how interesting, should be changed. Ask clients to engage in extreme value analysis. For instance, suppose consumers rated their agreement (5=strongly agree, 1=strongly disagree) with the statement “Brand X is a reliable brand.” Ask your client what they would do differently if the average score on this variable were 1.5 or if the score were 4.5. If they would do nothing different for the two extreme values, then this is not a very actionable variable.

Ensure close collaboration between researcher and client. Taking the above steps will bring the researcher and user closer, ensuring that users “buy in” to the research project.

Enhancing Strategic Importance

Top managers measure the strategic worth of any action in terms of its ability to contribute to the bottom line. No doubt, marketing research has the ability to contribute to the bottom line by facilitating high-quality decisions. Many top managers have long become frustrated with marketing research because they simply cannot relate to the output of marketing research studies.

Many of the suggestions presented here are ignored as we continue in our traditional role of marketing researchers—crunching numbers and looking for statistically significant results. To improve our ability to contribute to the firm’s ROI we need to transform ourselves—from statistical analysts to business analysts, from research professionals to business associates, and from passive information producers to active decision makers. To make this happen, we need to take a strategic view of the marketing research function. Marketing researchers need to figure out where the gaps are (e.g., do we know how our marketing research variables translate into strategic variables) and then spend internal resources plugging those gaps (e.g., conducting the bridge studies). This should help start a new dialogue between researcher and users of research—a dialogue where marketing research is seen as squarely contributing to the bottom line, be it sales, profitability, or ROI. ●

Additional Reading

Kamakura, Wagner A., Vikas Mittal, Fernando de Rosa, and Jose Afonso Mazzon (2002), “Assessing the Service-Profit Chain,” *Marketing Science*, 21 (3), 294-317.

Rust, Roland T., Anthony J. Zahorik, and Timothy L. Keiningham (1995), “Return on Quality: Making Service Quality Financially Accountable,” *Journal of Marketing*, 59, 58-70.

Vikas Mittal is an associate professor of marketing at Katz Graduate School of Business at the University of Pittsburgh. He may be reached at vmittal@katz.pitt.edu.

Copyright of Marketing Research is the property of American Marketing Association and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.