Finally, Market Research You Can Use

Executives often complain that the findings generated by their companies’ investments in market research are rarely put to use. The problem could be solved if marketers made their research more useful. How? By shifting their perspective in three important ways.

First, market researchers should aim beyond measurement to optimization. The marketing literature is full of sophisticated methods for measuring customer behavior, but managers have a bigger problem than tracking customers’ buying patterns: They need to decide what action the firm should take to profit from that behavior. Deciding which response will yield the best result is an optimization problem.

Many impressive tools and methods for optimization have been developed to solve engineering and manufacturing problems. For these methods to work with marketing problems, they must be modified. These modifications are being made, as optimization experts realize that marketing offers meaty, significant problems and access to large amounts of data. The earliest successes were in pricing, with the development of sophisticated yield-management systems in the airline and hotel industries. Other work involved the development of models to predict creditworthiness in the credit card industry. More recently, Internet retailers have begun to develop optimization systems to identify which products to show to different customers. Examples of current targets for optimization research include systems for determining who should receive direct-mail promotions and which products and prices to highlight in those promotions. In product development, optimization may help companies design product lines to satisfy customers with diverse needs.

A focus on optimization requires that managers choose a time frame over which to optimize. This brings me to the second shift in perspective: More studies should focus on the long term. Decisions on pricing, advertising, and other marketing matters often have lingering impacts on demand and profits, yet the vast majority of marketing studies limit attention to the immediate outcome. To understand how this can undermine good decision making, consider the findings of a few recent studies.

A publishing firm studying the impact of price promotions over two years discovered effects that were important for its pricing strategies: It found that if deep discounts were offered, established customers stocked up and then purchased less later on, whereas first-time customers tended to come back and purchase more often in subsequent periods. A study of 20,000 people who used a home furnishings catalog found that 10% discounts to customers who ordered out-of-stock items increased revenue in the short term but decreased the rate at which those customers ordered different items later. And other studies have concluded that moving from a short-term to a long-term focus on catalog mailings could increase profits for mail order companies by as much as 40%.

Clearly, market researchers must study such long-term effects if their findings are to guide optimal decision making. So why haven’t they? In part, it’s because of the difficulty of collecting data over time. But that hurdle is about to be lowered. New methods currently in development will make it possible to use historical data to reliably estimate long-run effects.

The third change market researchers should make is to start testing their theories in the field. What we usually see in the marketing literature is the results of experiments conducted on college students or analyses of historical data.
collected from public or proprietary sources. There has been a striking absence of field tests in which companies deliberately vary how they interact with customers engaged in real transactions and measure the responses.

But this, too, has been changing recently, as managers are increasingly collaborating with academics to conduct large-scale experiments involving actual customers. Examples include studies that vary the actions of a company’s sales force, the pages shown to customers on a company’s Web site, and the content of catalogs and other direct-mail promotions. Catalog companies are particularly well placed to test different marketing actions. For instance, they can easily conduct split-sample studies, in which different versions of a catalog are sent to large, random samples of customers. This type of research meets a high standard of rigor because it explicitly controls for alternative explanations due to intervening events or systematic differences between samples. It also yields findings that are easy to communicate. Even the least sophisticated practitioners can appreciate the conclusions when shown how profits differ across experimental conditions.

For all these reasons, the catalog industry has been the quickest to embrace field testing, but managers in other industries are beginning to catch on. Investment will be required in order to develop the infrastructure and expertise necessary to conduct field tests. Most companies will need to invest in measurement technologies to ensure that outcomes are measured correctly, and they will need to create a process for disseminating and institutionalizing the findings. But if they do manage to stage rigorous field experiments—and use the findings to optimize profits—they can rightfully claim to be treating marketing as a science.

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