



Seeds . . .

Issue Number 10

During the past several months we have had requests from clients to discuss different aspects of market research activities. This issue addresses several of those requests.

Based on the types of questions we received, it is apparent companies who have conducted their own market research have discovered the truth – it is not an easy task.

Valuing Market Research

A frequent question asked by companies who do not use market research is, “What is the return on my investment for conducting a research study?”

We recently reviewed three years of market research studies to determine if we could adequately answer this question. By categorizing over 180 studies by type and purpose of the research and key decisions to be made as a result of the research, we tried to relate the client’s cost (for the research) to the financial impact of a client’s decision. We excluded studies conducted solely for follow-up benchmarking and/or company requirement purposes. A sampling of the results are shown in the table below:

Purpose of Study	Key Decisions to Be Made	Decisions/Financial Results	Estimated ROI
Investigate new markets for existing products (3)	To enter market or not	<ul style="list-style-type: none">No (1) - saved \$500,000 in costYes (2) - sales increase of - \$2 million, results unknown	Cost avoidance 277%*
Investigate potential acquisitions (2)	To acquire or not	<ul style="list-style-type: none">No (1) - saved \$50 million in costYes (1) - sales increase of \$44 million	Cost avoidance 157%*
New Product development (2)	To redesign or not	<ul style="list-style-type: none">No (2) - saved \$1.5 million to \$3 million	Cost avoidance
Determine future market growth (1)	Build or expand manufacturing facility	<ul style="list-style-type: none">No (1) - saved between \$20 million and \$30 million	Cost avoidance
Sales channel analysis (1)	Add new sales channel to existing channel	<ul style="list-style-type: none">No (1) - saved at least \$80, 000 to \$100,000	Cost avoidance

() = Number of studies.

* Based on 25% margin contribution for first year.

It is interesting more studies resulted in cost avoidance rather than revenue generation. This was an initial surprise – but after thinking about how many new products fail or never come to market and how many diversification programs have gotten corporations in trouble, maybe not.

While it is nice to see return on investments for successful new ventures so high, market research cannot take all the credit for the additional margin generated. However, the cost of market research is such a small sum for potential improvement in sales and margin dollars that every time we calculate a return on investment, the numbers come out above 100%.

There are, of course, many research studies where it is virtually impossible to calculate the financial value. The intangible value can be extremely high on customer satisfaction studies. The sad part is there is little or no value when studies sit on the shelf for months.

Market Research

As discussed in previous *Seeds...* issues, there are several methods used to conduct market research surveys. These include surveys conducted by:

- Mail
- Telephone
- FAX
- Computer disk
- Personal face-to-face
- Focus Groups
- Internet/Email
- Intercepts at malls or at points of sale

We have been asked by clients which of the above methods result in the highest yield (percentage of completed interviews from a finite database) in relation to the costs of conducting the survey. This is not easy to answer as so much depends on the target audience and the schedule requested to complete a valid sample from a database. We reviewed the results from 21 recent Allegheny Marketing Group (AMG) studies conducted by telephone and compared them with results from mail surveys. The results are surprisingly close – 18% for telephone surveys and 16% for mail surveys. These statistics prompted us to take a closer look at our telephone interview profiles.

There were four major reasons telephone interviews could not be completed with the remaining 82% of the companies on the database.

- Refusals
- Wrong number/disconnected phones
- Screen-outs (did not qualify)
- Respondents not available (voice mail)

The results of our review were:

<u>Reasons for Not Completing</u>	<u>Weighted Average</u>	<u>Highest</u>	<u>Lowest</u>
Refusals	15%	21%	6%
Screen-outs	28%	67%	0%
Wrong number/disconnected	9%	24%	0%
Not available	30%	59%	4%

This range indicates there is a wide variance due to the target audience, the quality of the database, and how tight the screen-out criteria is.

We have found the following guidelines to be helpful in our own attempts to maximize the percentage of completed interviews from the database used.

1. Attempt to obtain databases with 3 to 5 times the number of companies you want to interview.
2. Check the age of the database. Attempt to obtain the most current database available.
3. Think about the target audience and pick the right time of day to call. (Many business people are only available early in the morning or late in the afternoon.)
4. Try to create a perceived benefit or reason for the interviewee to participate in the interview.
5. Do not get discouraged (or be surprised) if the hit rate is low at the beginning. Simply modifying the introduction or adjusting the qualifiers slightly can often dramatically improve the hit rate.

International Studies

With the new age of electronic communications and information, the business world has suddenly gotten smaller – and with it, a greater need for market research on a global basis. During the past two years, the Allegheny Marketing Group has received more requests for global research than in the previous six years combined.

Conducting global research is somewhere between four to ten times more difficult than research within the US. The issues encountered for a global study include:

- Collecting market intelligence on a consistent basis between world regions and countries.
- Translation of not only different languages but different perspectives and context.
- Different methods needed to collect market data within each country.
- The extremely wide difference in the time required to complete surveys in different countries.
- The differences in costs to conduct research within different countries.

AMG has tried and/or considered a number of approaches for effectively completing international studies. For example:

Approach A - Conduct all research from the US via telephone or fax.

Problems encountered:

- Time zones require a 24-hour operation to be efficient.
- Language translation is still a problem even with bilingual interviewers.
- In many countries and businesses, telephone interviews are not accepted.
- The costs are not much lower than outsourcing or traveling to each company.

Approach B - Subcontract the research to in-country market research companies.

Problems encountered:

- Wide difference between quality of work performed by subcontractors.
- Wide difference in meeting time schedules.

Approach C - Conduct all research by mail from the US.

Problems encountered:

- This takes forever and the actual schedule is unknown.
- Questionnaires are often unreadable, untranslatable, and incomplete.

Approach D - Conduct research via e-mail/internet.

Problems encountered:

- Requires a current database of customer contacts.
- Internet usage varies from country to country.
- Questionnaires are often incomplete.

We have found the best method is to locate a few qualified market research partners in each region of the world. It is necessary to conduct research by using partners already familiar with the culture and practices within a specific country. It is also best to use as few partners as possible – thus, locating a partner in Europe, the Far East, the Middle East, and South and Central America is the best trade-off we have found.

In future *Seeds...* issues, we will share some of our findings from our International studies.

Customer Satisfaction/Customer Loyalty

An increasing number of clients have asked AMG to include a measure of customer loyalty as an integral part of their customer satisfaction studies. Recent trade magazine articles appear to have made the loyalty issue a hot subject. The obvious interest is in the notion that the degree of customer loyalty is directly proportional to the level of customer satisfaction.

After testing the water on the loyalty side, we have found loyalty to be a more complex issue than anticipated. While there is a correlation between satisfaction and loyalty, there are many other factors to include in a survey to predict a customer's loyalty in the future. These factors include:

1. Pricing issues to determine price sensitivity.
2. Satisfaction levels with competitors.
3. Perceptions on loyalty of the seller to the buyer.
4. Past behavior regarding switching of suppliers.
5. Relationship of the seller to the buyer.
6. Switching costs to changing suppliers.

Like customer satisfaction, there are degrees of loyalty. They range from total loyalty where customers continue to purchase only your products and services to false loyalty where customers buy due to proprietary technology, government regulations limiting competition, or extremely high switching costs.

Based on a review of ten recent customer satisfaction studies, we have found the following correlation between customer satisfaction and current/past practices of the companies interviewed:

Customer Satisfaction Level (all with suppliers studied)	Percent of Companies Who Have Switched Suppliers at Least Once in the Past 2 Years	Percent of Companies Who Buy From More Than Two Suppliers (Same Products)
Group One (6 studies)		
Extremely Satisfied	42%	
Satisfied	51%	14%
Somewhat/Not Satisfied	7%	8%
Group Two (4 studies)		
Extremely Satisfied	23%	
Satisfied	69%	25%
Somewhat/Not Satisfied	8%	18%

This correlation is certainly not conclusive and there could be many other issues working to drive switching and sourcing practices. However, it would appear that it is not just the number of dissatisfied customers that drive loyalty practices, but rather how many customers are extremely satisfied. Total satisfaction appears to drive loyalty – while dissatisfaction results in lost customers.

In future *Seeds...* issues, we will update you on the loyalty issue by incorporating new customer satisfaction and customer loyalty information into our database.

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