Most marketing research is done for tactical reasons—firms want to improve their products, test a new product concept, evaluate ad copy, set a better price, or monitor customer satisfaction. When done well, this can help firms prevent costly mistakes. However, it’s important to remember that competitive firms are also doing market research, often relying upon the same set of suppliers. These firms get exposed to and utilize similar research approaches and therefore obtain the same market insights. In these cases, tactical market research is unlikely to lead to sustainable competitive advantage.

I argue that marketing research can be designed for strategic purposes and that it should be represented at the executive level when strategic moves are being contemplated. If tactical marketing research affects short-term profits, strategic marketing research should affect the firm’s long-term or lifetime profits.

A firm’s value proposition is said to have a sustainable advantage if the resources that lead to the advantage are valuable, unique, or imperfectly imitable and if there are no strategically equivalent alternatives. As K.P. Coyne put it in a 1986 *Business Horizons* article (“Sustainable Competitive Advantage: What It Is, What It Isn’t”), “For a business to enjoy a sustainable competitive advantage, the difference between the firm and its competitors must be reflected in one or more product delivery attributes that are key buying crite-
If marketing research aspires to increase its business value from tactical informant to strategic adviser, it needs to generate intelligence that leads to the development of value propositions that have a sustainable advantage. To achieve this aspiration, firms must understand key buying criteria, predictive intelligence, and how to create opacity and inertia.

### Executive Summary

**If marketing research aspires to increase its business value from tactical informant to strategic adviser, it needs to generate intelligence that leads to the development of value propositions that have a sustainable advantage. To achieve this aspiration, firms must understand key buying criteria, predictive intelligence, and how to create opacity and inertia.**

#### Key Buying Criteria

When prospective customers make choices, they use various criteria, including features that can be evaluated prior to purchase. Less tangible criteria are more likely to be evaluated by customers based on the perceptions they have in their memory. These perceptions can be the result of prior exposure to the brand, advertising, or recommendations and are often stored in memory at the level of benefits sought. In addition to physical product attributes, strategic marketing research needs to help firms in understanding the importance of benefits. What follows are four reasons for studying the importance of benefits.

1. Understanding only the importance of physical or concrete attributes doesn’t work in many markets. For commodity products like light bulbs, detergents, and many other fast-moving consumer goods, it’s difficult to differentiate and position a brand solely on its performance on concrete attributes. Unless one can protect the “physical product attribute” differentiation with a patent, the advantage won’t last long, and even with patent protection the competition can catch on. In one study, managers rated patents the least effective way to protect intellectual property. Competing companies often obtain crucial information and invent around the patent. For complex products or markets, a research approach based on physical attributes doesn’t work because information at the level of the physical product will be too much for the consumer to handle (think of cameras, cars, computers, and financial services).

   Consumers look for ways to simplify the information available to them. They can simplify detailed brand and attribute information by categorizing the information into higher-level constructs that address an important need or even higher-level personal values. Think of constructs such as “reliability” and “quality.” Communication strategies based solely on the performance of product attributes aren’t likely to be successful for these products. In car advertisements, for example, one can encounter higher-level constructs such as “excitement,” “performance,” “luxurious,” or “economical.” In car ads, it’s not uncommon to refer to even higher-level values such as fun (“the ultimate driving machine”) and achievement (“arriving ahead of schedule”). Volkswagen successfully revived its VW brand partially because its “Drivers Wanted” ad campaign pushed “fun and excitement” (a higher-level personal value) while designing the Beetle to be “agile” and “lively” (benefits).

2. The sought-after benefits often can be translated into product improvements or new products. With a good understanding of the linkage between physical product attributes and benefits sought, firms can get ahead of the competition by prioritizing R&D options and, if possible, patenting the critical means of delivering benefits. For example, a car stereo company knows from consumer research that consumers value ease of use. To improve ease of use, it starts offering car stereos that have touch control, ergonomic design, and steering wheel control. Hence, using the benefits can translate results into new or improved products. An important advantage here lies in the longevity of such results. Physical product attributes may become outdated or obsolete within a short time, whereas the benefits sought by consumers remain much more stable over time.

3. Benefits sought may point to profitable improvements that can be made outside the physical product. For example, Mike Lotti, head of market research at Eastman Kodak Co., says, “At the product level, without patent protection, any successful product can be reverse engineered. Victories that derive from your whole value delivery system (e.g., Southwest Airlines) are more permanent.”

4. Using benefits sought to differentiate among customers helps firms study cross-category requirements. Large companies, those having many different product lines, often allow each business division or profit center to have its own research budget. However, when these departments deal with the same customers, the company may fail to respond to needs such as “easy to do business with” or “understands my needs.” Some benefits may play a role at the individual product level but, when prospective customers buy a portfolio of products potentially from one firm, they may be looking for benefits that transcend the individual products and are more at the level of business or brand relationship.
Take a complex organization such as IBM. It markets different hardware categories (PCs, notebooks, servers), software categories (middleware, operating software, desktop software), and services categories (IT consulting), often to a largely overlapping base of customers. Hence, unless an organization like IBM recognizes the importance of being consistent (especially if customers are seeking benefits at a relationship level), it would be in danger of diluting a consistent brand positioning.

Companies need to address the question of cross-category research. For example, V. Vishwanath and D.A. Krawlec wrote in “Strategic Segmentation,” a 2000 Bain and Co. white paper, “...Dell had neglected its most profitable segments (in 1993) and placed too much emphasis on the retail channel,” and “Dell realized that it had to maintain its leadership position within the direct channel, it had to constantly segment and re-segment its customer base. Using this direct, continuously updated knowledge of its customers, Dell has been able to refine its business models for different customers...” In this case, research was not only successful from a marketing perspective; it shows that research has the potential to lead to a significantly sustainable competitive advantage because it’s applied to what customers want across the products being offered.

Firms such as HP, the former Compaq, Gateway, and others have spent millions on consumer research testing features, optimizing product lines, segmenting markets, and studying consumer choices. However, these firms have failed to create a sustainable competitive advantage over other brands for their current sales properly from its predictive model.

An early but very compelling example of how research on predictive intelligence can lead to sustainable advantage comes from a study performed for ABB Electric, outlined in a 1990 Interfaces article by H.D. Gensch, N. Aversa, and S.P. Moore (“A Choice-Modeling Market Information System That Enabled ABB Electric to Expand Its Market”). In its third year of existence, ABB Electric was approaching the break-even point when it was confronted with a 50% drop in total industry sales of electrical equipment. The only way the firm could survive was to take customers from established major competitors. Customers and prospects were asked which brand they preferred and most recently had bought and were asked to evaluate seven brands on a number of key decision attributes of the product (e.g., price, appearance, availability of spare parts, and warranty). A predictive model was built for the likelihood of buying a brand based on how it was perceived on the key dimensions. ABB established that the model was able to predict current sales properly from its predictive model.

The company applied the results in one of three geographical areas where it was operating. It created four different segments of customers by using individual-level choice probabilities:

1. A class with high probability to purchase the ABB product and a low probability of buying a competing product (customers that obviously saw the products by ABB as superior to the competition)
2. A class with a high probability to buy a competitor’s product and a low probability to buy products from ABB
3. A class more likely to purchase the competitor product, but the choice probabilities of ABB and the competitor were relatively close
4. A class somewhat more likely to buy ABB, but the choice probabilities of ABB and the competitor were very close

Unless one can protect the “physical product attribute” differentiation with a patent, the advantage won’t last long, and even with patent protection the competition can catch on.
Opaqueness is defined as the degree to which personal trust enters as an important buying criterion, where personal trust enters as an important buying criterion, especially in industries that are built around customer relationships, such as research and consulting companies. This is because a key buying criterion is often the personal relationship that the firm has developed with its clients. In such industries, personal trust can be a critical factor in customer retention and loyalty. For example, personal trust can play a significant role in retaining customers in the software category, where relationships are often long-term and customer satisfaction is closely tied to trust.

For two regions, ABB decided to reallocate the marketing budget to the third and fourth segments and ignore the first two segments for the time being. So they really put all their marketing dollars where they had the highest likelihood of getting a ROMI. Sales in the third region subsequently went down, consistent with a national trend, whereas sales and market share in the first two geographical regions went up and were three times higher than market share in the “non-modeled” region. ABB Electric estimated that the value of its choice-based segmentation approach was worth substantially more than $50 million. (See Exhibit 1 for a hypothetical example of individual choice probabilities.)

Sustainable Advantage

Once research has identified the right buying criteria and found a sweet spot that fits with the firm’s strengths and capabilities, the firm now needs to consider the length of time it may be able to protect an advantageous position. Competitive advantages can be protected in a variety of ways. Think of patents and capital investments. The degree to which these forms of protection work to defer competition may depend on the specifics of the situation. Patents are not always effective tools to defer competition. If capital investments are the only tool used, they may actually reduce a firm’s ability and motivation to invest in innovation and hence get in its own way of staying competitive. We consider two competition-deferring strategies that don’t have such a disadvantage: creating opaqueness and inertia.

Creating opaqueness. Opaqueness is defined as the degree to which the reasons for one firm’s success are unclear to another firm. The key is to keep them guessing. A firm can create opaqueness in various ways. First, having predictive relationships that identify different key buying criteria creates a layer of opaqueness (even better if the firm can do this per segment). Second, value propositions defined across the whole value chain create opaqueness because the competition can’t reverse intelligence by just looking at one product. Instead, it has to look at a much broader business system that may contain components it doesn’t have access to. Value propositions that are defined across categories or geographies using benefits, needs, and motivations create a layer of opaqueness because such value propositions may not be identifiable without having an understanding across the entire set of categories or geographies.

For example, in one project we identified a global segment that was rather small in each of the included countries, but it also appeared consistently in the countries so its overall size was quite substantial. Plus the customers in this segment were among the most affluent. Any effort to identify this segment based on a single-country approach would have discarded this segment as a potential area for creating competitive advantage because of its small size. Hence, the threshold that the competition needed to tackle was raised by integrating research across countries.

Creating inertia. Once the competition understands your advantage, your firm should actively pursue a strategy that prevents competition from moving in on you. A tool that can further help you sustain an advantage lies in understanding the inertia forces that can play within a market. When inertia is created, the customer is psychologically unwilling to switch to other brands, even in the presence of equivalent or superior alternatives. Switching costs have been associated with higher profits and have been found to explain about twice as much of the variance in customer retention than customer satisfaction.

To understand the strategic value, a firm should research customers’ unwillingness to switch from different angles including perceived financial switching costs, search and evaluation costs, set-up and installation costs, learning costs, tenure-related benefits, personal relationship losses, and perceived risks associated with switching. (See the 2003 Journal of the Academy of Marketing Sciences article, “Consumer Switching Costs: A Typology, Antecedents, and Consequences,” by T.A. Burnham, J.K. Freis, and V. Mahajan.) For example, any type of learning or training that is required for customers will induce a subsequent switching barrier, as customers perceive this learning as an extra cost.

The software category is probably the strongest example of this. Products like Microsoft MS-DOS and Lotus 1-2-3 stayed in the market for more than 10 years, with largely unchanged pricing and design. We recommend that even when a firm can create such a barrier it should still aggressively pursue innovation to prepare itself for the next wave of competition.

Industries that are built around customer relationships, where personal trust enters as an important buying criterion, can see similar patterns of sustainability. An example can be found in the U.S. market research industry. Marketing research and consulting companies are surprisingly open about their capabilities with clients, sometimes even with competitors. This is because a key buying criterion is often the personal relationship that the firm has developed with its clients.
Consistent customer relationship management, if it has value for the customer, is sustainable because the nature of the relationship is highly opaque and more inert because clients have invested in the relationship.

Hence, a firm can search for switching barriers in a number of ways. First, it needs to understand how prospective customers perceive switching costs (e.g., search, evaluation, financial, learning, relationship) within a certain product category or set of related product categories. Second, one can survey customers about their individual aversion and perceptions of risk associated with switching. Again, the study of switching costs stresses the importance of cross-category management. Firms should consider marketing a portfolio of related products as this will increase a customer’s unwillingness to switch down the line.

**Research Implications**

In most firms, the marketing research function is a support function for the marketing department. In that role, research will be pressured to support short-term marketing issues.

I have experienced exceptions where marketing was interested in increasing the longevity of the research results, but in most cases the pressure to support short-term issues overrides the need to think about strategic information. To fully benefit from strategic research insights, the organization must include a separate function or group that doesn’t have short-term sales objectives to service. Perhaps a separate corporate marketing intelligence group could achieve the potential of strategic research.

The approach to marketing research and strategy described here is aimed at creating a sustainable competitive advantage. The goal is to find a meaningful value proposition that can be protected against competitors who will look to either copy you or create reasonable substitutes. The key to that is a value proposition that is opaque. Of course, it also makes sense to incorporate competition barriers and/or switching barriers into your value proposition. Once the competition knows what makes your firm successful (either value proposition-wise or operational-wise), they would then still have to overcome another barrier. They may be willing and able to do this, they may be willing but unable to do this, or they may be able but choose not to do it (e.g., they may not realize the seriousness of your advantage).

For example, ABB Electric found that, in order to make customers switch from very reputable competitors to ABB Electric, it had to offer a 5-year warranty. To be able to offer such a warranty, it needed to invest in cutting-edge testing equipment. Even if competitors found out what worked for ABB Electric, they would then still have to make a similar investment. The market in which this played was declining and the competition opted eventually to withdraw from the market altogether. This enabled ABB to sustain its advantage for a long time. Another example is the server market a few years ago. HP and Compaq knew that Dell was entering this market. They overestimated the loyalty of their customers and didn’t take Dell’s threat seriously enough. Also, because of the mission-critical nature of the server product, it was assumed that brand reputation would be a barrier that Dell wouldn’t be able to break.

Once you have found a sustainable value proposition, it’s necessary to make a continuous reinvestment in research and customer insights because entry and competition barriers will never protect a firm forever. If done well, such barriers will maximize the firm’s or product lifetime profits and also buy you enough time to get ready for your next move.

**Additional Reading**


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