Measuring

In a competitive environment, researchers must prove the value of their efforts

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Marketing research (MR) directors are frequently asked to justify their contributions to business success. This happens so frequently, in fact, that industry thought leaders like the American Marketing Association, Advertising Research Foundation, and Marketing Science Institute have all emphasized the importance of this issue. When several MR directors asked us how to measure the payoff or return on investment (ROI) of MR, we interviewed more than 70 respected corporate market researchers and their internal clients to determine best practices. Our focus was on internal research groups, but most of our conclusions also apply to research suppliers.

We came to several conclusions. First, the organizations that are most likely to ask for measures of the payoff of MR are those that are unconvinced of its value. One researcher said, "I developed my ROI measures as a defensive tactic. MR was under attack and needed something concrete to convince our clients (and ourselves) that we were worth what they were spending." A client gave a parallel point of view. "If I'm happy with my MR group, I don't need to have them take their time and budget to measure ROI or prove to me how valuable they are. However, if I'm unhappy with them and don't think I'm getting good value, then I

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Returns on Research

Executive Summary

Marketing researchers are frequently asked to demonstrate the value of their contributions to their organizations. The authors of this article interviewed more than 70 respected corporate market researchers as well as their clients to determine best practices for measuring the return on research investments. This article provides the tools to demonstrate and increase research contributions.

want to have some objective way of evaluating whether I'm getting what I'm paying for."

Companies where MR is an ingrained part of the DNA of decisions seldom ask MR to demonstrate its ROI. A researcher said, "We are so busy conducting research that the company uses to make decisions that there's no need and no time to measure our performance. Our contributions to the company are clear." While most MR departments are perceived as adding value, those that aren't are the ones most likely to be asked to justify their budgets.

Our second conclusion is that most MR departments are not measuring any aspect of their performance. Several researchers told us that they use the no-complaints-means-they're-happy evaluation method. "We don't have a formal way of measuring our performance. We just know that we're busy doing our research and that no one has complained. As long as we have plenty to do, we're not worried." Some researchers feel that spending time and money measuring ROI of market research leaves less funding and time available for the research itself. Others are not sure how to measure their performance and are uncomfortable about what they might find. "To be honest, I'm not sure what I'd find if I started a formal survey. What if I learned the clients were unhappy but I didn't know what to do? That would be worse than not asking."

Our third conclusion is that there is no "gold standard" that is widely used for demonstrating the payoff of MR. Researchers have reinvented the wheel as they developed their own measures. Said one respondent, "When I was asked to measure the ROI of MR, I really didn't know where to start. No other MR groups that I knew of measured ROI. So I did some reading, attended some conferences, and then developed an approach I thought might work for us. I think I did a good job, but I'm not sure I did the best job possible."

We discovered several measurement approaches, including (1) satisfaction (with MR people, the department, or projects), (2) negotiated value, and (3) pure ROI (ROI Lite and ROI Complete).

The Satisfaction Approach

With MR people. Some MR groups measure the performance of the MR professionals. Typically, internal clients fill out short questionnaires rating all the MR staff with whom they have worked. This approach is used mainly by organizations that annually conduct 360-degree reviews for employees or that have a culture of systematic performance appraisals. (360-degree reviews are usually appraisals by all internal stakeholders—peers, subordinates, and superiors—that an individual interacts with on the job.)

Some of the standard measures include: overall effectiveness, responsiveness to client needs or requests, ability to participate well in teams, and technical skills or quality of work. Clients can often add open-ended comments as well.

With the department. Many MR departments measure internal client satisfaction with the department's performance. Top MR executives usually meet personally with the most important clients to ask how MR can improve and to discuss the clients' future decisions and research needs. "I try to meet with all our top executives each year during or just before strategic planning time. By asking about their strategy and future needs, I can tailor my strategy to theirs. This is the best way I know to align my department with theirs, and I think these discussions are greatly appreciated. I think they show that our department wants to be their partner."

For other internal clients, MR usually uses satisfaction surveys. The best surveys in our opinion touch on the basic concepts found in the customer equity work first developed by Roland Rust, Valarie Zeithaml, and Katherine Lemon in their book, *Driving Customer Equity* (Free Press, 2000). Exhibit 1 shows a typical MR department satisfaction model.

With projects. Some MR groups determine internal client satisfaction with major projects. "We don't do this for every project. Some, like a quick secondary search or a few questions on an omnibus survey, are too small to warrant the effort. But for ongoing major tracking studies, for studies that will have a big impact on our success, we do get back in touch with the clients to get their opinion about how things went."

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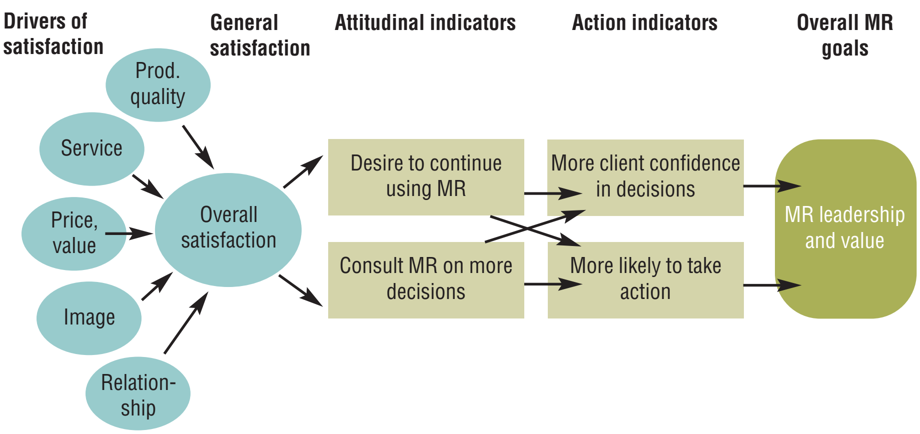
The project measurement approach uses a model similar to the department model shown in Exhibit 1. Usually project satisfaction includes concrete measures of the usefulness of the research. In a 1994 Marketing Science Institute working paper, "USER: A Scale to Measure the Use of Market Research," Anil Menin and James Wilcox found that there are several reasons for conducting MR. These include positive reasons (to guide

Exhibit 1 Department satisfaction model



decisions, to increase knowledge, to build support for decisions that must be made), but also some cynical reasons (to play internal politics, to delay or confuse decisions). So project satisfaction surveys can also ask how widely the research was used and how much new information was learned.

The Negotiated Value Approach

Although MR is increasingly being asked to quantify its contributions, none of the satisfaction measurement methods actually look at the financial payoff of research. The "negotiated value" method introduces the concept of the financial impact of MR projects.

This approach begins with a negotiation conversation that focuses on the value of decisions to be guided by the research. These conversations go beyond project objectives because the researcher and internal client reach agreement on the monetary value of the research. There is no fixed way to estimate the value of the research.

- For research on new products, markets, and market segments, the estimate can be based on the expected value of each promising new idea.
- For product or line extension research, the estimate can be based on the incremental revenue expected.
- For advertising research, the estimate can be based on the advertising budget at risk.
- Research that links directly to company strategy is given a higher value than research that has only indirect links.

MR and the client often agree during the negotiation conversation on the appropriate amount to spend on a research project. Suppose, for example, the research concerns a possible new product. Before the research, the client and MR may agree that the financial opportunity (with possible new sales of $20 million a year), many product design options, and strategic importance of the product justify a substantial research budget of $1 million.

After the research, MR meets again with the client to negotiate the actual value of the work. Let's assume, continuing with the new product example, that the product introduction yields only $10 million in sales in the first year and that the client says that 25% of the outcome is the result of MR. Then $2.5 million is credited to MR and the $1 million research budget is still justified, even though the sales are not what was hoped.

MR projects can also take a loss or have no credited value. For instance, if the business takes action based on the research that results in a loss, then MR shares in this loss and it's deducted from the total sum that MR is said to have contributed over a year.

Annual goals can be set for the MR department in terms of the total expected dollar value that MR should contribute across all projects, and bonuses for the MR group can be tied to achieving these goals. These negotiated values can be set separately for each client or for the organization as a whole.

The ROI Approach

ROI Lite. To measure ROI Lite, MR asks the client for two estimates during pre-project planning:

1. The anticipated dollar value of the decision that will be based on the research. In his book *Marketing ROI* (McGraw-Hill, 2003), James Lenskold discusses the importance of selecting the most useful financial estimates. One choice is to focus on revenue, such as gross revenue, income, or customer lifetime values. A second choice is to focus on costs such as the research, marketing, or manufacturing costs. A third choice is to combine revenue and cost, such as measures of net revenues or net profits. Whichever measure is used, it's important for MR and the client to agree that it is the most appropriate one, given the decisions to be made.

2. The anticipated increase in confidence of making the "right" decision. For example, if the client is 90% sure even before the research that he/she knows the best decision to make, there is little value in doing the research. But, if the client is uncertain today and believes he/she will be more certain when the research is completed, then the increase in confidence can make the research worthwhile.

The ROI method places an added burden on clients during project planning by asking them to estimate the decision value and the confidence increase. This is not always easy for clients to do, and MR groups that use this method report they often let clients provide them with cost or likelihood ranges. For example, instead of saying a decision is worth $10 million, a client might say it's worth $8 million-$12 million. Or a client could say he/she expects his/her confidence to rise 40%-60%.

With the answers to these questions, MR can calculate the expected ROI Lite using the following formula.

$$\text{ROI Lite} = \frac{\$\text{ Value} \times \text{Increased Confidence}}{\text{Cost of Research}}$$

For example, assume a firm has to decide which of five creative approaches to use in a $2 million advertising campaign.

- Since it is uncertain how the advertising will affect sales, the firm decides to use the $2 million campaign cost as the value estimate.
- No one knows which of the five approaches is best, so the confidence of randomly picking the best one is only 20%.
- The firm believes that after the research it will be 80% confident of making the best decision (an increase of 60%).
- The cost of the copy testing is $250,000.

$$\text{ROI Lite} = \frac{\$2M \times 60\%}{\$250K} = \frac{\$1.2M}{\$250K} = 480\%$$

This ROI Lite discussion can help determine how much to invest in the research. If the dollar value of a decision is small or the expected decrease in uncertainty is low, then the budget should be kept small. After the research is completed, MR meets again with the client to revise the ROI Lite estimate in light of what was learned.

ROI Complete. ROI Complete is similar to ROI Lite except that it adds the concept of the likelihood of taking action. MR and the client discuss the estimated likelihood of taking action with and without the research. If the firm usually acts without research, then MR may not be able to raise the likelihood of acting and the firm should not spend much money on the research. However, if the firm seldom acts without research, then the research is more valuable.

The following equation is used:

$$\text{ROI Complete} = \frac{\$\text{ Value} \times \text{Increased Confidence} \times \text{Increased Likelihood of Acting}}{\text{Cost of Research}}$$

For example, suppose the decision is whether or not to enter a new market.

- Costs (including research, manufacturing, and marketing) are estimated at $20 million, and potential revenue at $50 million in the first year. The client and MR agree to use the first year's net income of $30 million as the expected dollar value. (Note that a few sophisticated MR departments calculate the net present value of the continuing revenue stream, but we have kept the example simple.)
- The executives know that entering a new market is risky. They are only 10% confident of making the right decision without research. With the research, they estimate that they will be 70% confident—an increase of 60%.
- The executives often act without research. The estimated likelihood of acting without research (based on past history) is 50%. They expect this would rise to 80% after the research—an increase of 30%.
- The cost of the research is $1 million.
- The firm decides to go forward with the research because there will be an anticipated positive 540% ROI by the end of the first year.

$$\text{ROI Complete} = \frac{\$30M \times 60\% \times 30\%}{\$1M} = \frac{\$5.4M}{\$1M} = 540\%$$

After the research is completed, MR and the client recalculate ROI.

What if the research says the firm should not enter the market? In that case, the research still has a positive ROI since it saves the firm from investing in a losing venture. Using the previous example, suppose that the research made the firm 80% certain they would lose their $20 million investment. Before the research, the firm was 50% likely to act and make a losing decision, which means the return on the research is 800%.

$$\text{Actual ROI} = \frac{\$20M \times 80\% \times 50\%}{\$1M} = \frac{\$8M}{\$1M} = 800\%$$

What if the research convinces the firm to avoid the market it originally preferred (as shown above) but to invest in an alternative market that would generate a net profit of $30 million in the first year? Assume the firm is 70% confident that the alternative is the best one (an increase of 60% since it had only 10% confidence in it before the research). Also assume the research increases the likelihood of actually entering a new market by 30%. Then the ROI is even higher.

Actual ROI =

$$\frac{(\$20M \times 80\% \times 50\%) + (\$30M \text{ x } 60\% \times 30\%)}{\$1\text{ M}} = \frac{\$8M + \$5.4M}{\$1\text{ M}} = 1{,}340\%$$

What if the client decides not to act even though the research projects a positive outcome? This often happens when there are changes in leadership or other uses for the capital. In that case, ROI is 0%, but the post-research discussion makes clear that this is the client's choice and not MR's fault.

It's not always easy to ask clients how likely they are to take action. Sometimes firms commission research simply to bless a decision that has already been made. Or firms may expect the research to increase their knowledge without necessarily leading to action. Examples of this would be new segmentation research or customer satisfaction tracking. In these cases, the likelihood of acting and the dollar value would depend entirely on what was learned. One MR director said, "Just like estimating the return on IT investments, there are so many assumptions necessary that you can never be sure your estimate will be close. For some kinds of exploratory research, you don't know until you're done whether or not it will produce anything of financial value." Because these discussions are difficult, some MR groups prefer to use ROI Lite rather than ROI Complete.

Which Approach Is Best?

Exhibit 2 summarizes the main pros and cons of each approach. The ROI approach provides financial measures that appeal to top executives. Not only does it use measures that are meaningful to CFOs and CEOs, the process of creating the ROI measure requires important strategic conversations with clients that can quantify the value of the research. These discussions demonstrate MR's knowledge of the business, show that MR is a team player with goals that are aligned with the client's, and increase the likelihood the client will accept and value the research.

The negotiated value approach is a less formal way to engage internal clients in a dialogue about research and their business while still providing financial measures of MR's value.

When MR holds post-project ROI or negotiated value conversations with the clients, this deepens MR's understanding of research's impact on the firm and leads to better research plans and recommendations in the future. If MR could create a database of the payoffs of various types of research (decision-oriented vs. exploratory or strategic vs. tactical), this could lead to increased future ROI. However, we did not find any firms that had such a database.

Satisfaction with people has the least connection to the benefits of the research. Satisfaction with projects helps design future projects but may face declining response rates. However, if firms are collecting satisfaction measures, they may add negotiated value or ROI measures later.

MR groups that demonstrate their value are able to build closer relations with their clients, to become more influential within their organizations, and to compete more successfully for additional resources. One person explained, "When I took over the MR department, they more or less told me I had to develop a way to measure ROI. After I had measured and discussed ROI for a year, the whole issue went away because they were happy with the department's work and were beginning to see us as a trusted partner rather than an afterthought. They saw us as a good investment, rather than an avoidable expense."

And isn't that what we all want? ●

Exhibit 2 Pros and cons of approaches

METHOD	PROS	CONS
Satisfaction People	• Provides feedback for researchers • Can be used for coaching, development • If aggregated, can identify department-wide issues	• Often biased when colleagues don't want to complain • Misses systematic, departmental issues • Questions often too general to be actionable
Department	• Helps understand clients' needs, build relationships • Can motivate department when linked to bonuses • Can model drivers of satisfaction to guide improvements	• Usually conducted annually, which causes delays in responding • Satisfaction not as powerful as financial measures in earning budgets
Projects	• Allows prompt response since satisfaction is measured after each major project • Can determine which projects do and don't add value and why	• Can cause over-surveying and loss of interest over time • Satisfaction with projects not necessarily linked to acting on the results
Negotiated value	• Uses financial measures • Opens dialogue with clients about their needs and values • Links MR contributions to measurable financial goals of organization • Post-project discussions strengthen ties to clients	• Pre-project estimates cannot assess the actual uses of the research • Lack of consistent measures of value makes cross-project comparisons difficult
ROI	• ROI financial measures can be weighed objectively and used to help MR compete for resources with other departments • Opens dialogue with clients • Links MR contributions to measurable, financial goals of organization • Post-project discussions strengthen ties to clients • ROI Complete encourages clients to act on research	• Asks clients to answer difficult questions about their intended uses of information and certainty about making the right decision • May not be appropriate for exploratory research that will not be used immediately for action

Additional Reading

Advertising Research Foundation (2003), *GROW – Global Research Online Workshop*. New York: Advertising Research Foundation.

Advertising Research Foundation (2003), *Guidelines for Market Research*. New York: Advertising Research Foundation.

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