Differences Between Differentiators and Cost Leaders in Market Research and Internal CRM Usage

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Abstract

The Porter strategy types of Differentiation and Cost Leadership are put forward as strategies leading to competitive advantage (Porter 1980). These types have quite contrasting implementation guidelines in terms of human resources, organisational structure, job design decision-making process, control systems, and information systems. These internal contrasts suggest Differentiators and Cost Leaders require contrasting roles for market research and internal CRM systems. Very few studies have explored the contingent role business strategy may have in explaining contrasting roles in marketing information systems or market research.

This study involved a cross-industry postal survey of 240 Australian marketing managers. One contribution of this study was to find market research having quite different roles in supporting Marketing (i.e. brand) Differentiators compared to Product (i.e. innovative feature) Differentiators. Surprisingly only one market research role differed when comparing Cost Leaders with Marketing Differentiator strategies. A final contribution was to find that no one strategy having a greater reliance on internal CRM systems in supporting decision-making.

Keywords: Strategy, market research, CRM

Introduction

Several strategic and tactical functions for market research have been described - action oriented vs. knowledge enhancing roles (Slater and Narver, 2000) strategic vs. tactical roles (Raphael and Parket, 1991) identifying risks vs. identifying opportunities (Sherman 1999) setting strategic direction, opportunity analysis and monitoring and control (Roberts 1992), exploratory vs. confirmatory (Hart et al. 1999) and even a role as evidence to win an argument (Culkin et al. 1999).

Traditionally, the role of market research is to support strategic decision making. (Hamlin 2000; Raguragavan et al. 2000). Yet the Hart et al. (1999) review of 20 years of academic literature examining “Factors influencing the use of marketing information” did not include business or marketing strategy amongst the nine variables. The review covered the major seminal studies such as those of Deshpandé and Zaltman (1982; 1987)
A second gap in the market research literature is due to the emerging role of internal CRM systems. The information these systems provide may complement or corroborate information from traditional market research. (Malhotra and Peterson, 2001), or may even substitute for it. To implement relationship marketing and achieve customer intimacy CRM systems with “adequate” customer databases and data mining techniques are required. (O’Malley and Mitussis, 2002) This is because individual customer preferences must be understood. Baker and Mouncey (2003, p. 417) raise the question “…whether the pursuit of relationship marketing, perhaps through CRM initiatives, demands any changes in how market research is undertaken or delivered.” They relate this to the concept of a “listening organization” which combines the traditional role of market research with integration of internal databases, customer contact points and other internal customer listening systems.

Since market research and CRM may fulfil similar functions in providing information to support strategic decision making, their use should likewise be related to firm strategy. Yet research on differences in either MKIS (Ashill and Jobber, 2001) or CRM according to strategy types is virtually non-existent. It is possible that the Porter Differentiator would use CRM to build strong “differentiating” customer relationships although Cost Leaders with less innovation may use CRM as part of a more defensive customer retention strategy.

**Previous Research on Porter Strategy Types and Marketing Information**

Generic conceptualisations of strategy, devised by Miles and Snow (1978) and Porter (1980), assume that the classification of business units or organizations according to marketing strategy provides more specific and appropriate guidelines for human resource, organizational structure and information requirements. According to Porter (1980), there are three successful generic strategies of Differentiators, Cost Leaders and Focus types. The Differentiator strategy achieves competitive advantage through offering something unique beyond competitors. This could be a brand or a product or service feature. In contrast the Cost Leader achieves competitive advantage by becoming more efficient in production and resource usage. It will often have older products, greater internal focus and often a lower priced product. Finally the Focus strategy type can be either a Differentiator or a Cost Leader but differs in that it targets a market niche rather than the broad market. These internal contrasts suggest Differentiators and Cost Leaders require contrasting roles for market research and internal CRM systems. Hagen and Amin (1995) found differences in external environment scanning and opportunity analysis practices between Differentiators and Cost Leaders. While they found the amount of market research was similar for both strategies the type of issues being researched differed. In contrast Hambrick (1982) found no differences between the external environmental scanning of the strategy types.

Drawing on non-Porter strategy type literature Du Toit (1998 p. 207) found difference between the Miles and Snow Prospectors, Analysers and Defenders in “…the way in which information was managed (for competitive advantage)…” They found differences in internal records, competitive information and external information. More recently Narver and Slater
(2000) believed there would be differences between Prospectors, Analysers, and Defenders in terms of market intelligence generation.

In summary there is a gap in the market research literature in terms of differences between Porter strategy types and the following roles of marketing research: a) enhancing strategic decision-making, b) increasing usability of existing data, c) representing marketing activities to senior management and d) achieving productivity and political outcomes. Piercy (1983) observed the non-rational use of market research which recognises the politicised information environment inside firms. Further, a gap exists in the literature regarding differences between the Porter types and the reliance and usage of internal CRM systems.

Hypothesized Relationships (Research Propositions)

1. That Differentiator strategy types will have a greater reliance on market research in its role of “enhancing strategic decision-making” than Cost Leadership or Focus strategy types.

2. That Cost Leader strategy types will have a greater reliance on market research in its role of “increasing usability of existing data” than Differentiator or Focus strategy types.

3. That Differentiator strategy types will have a greater reliance on market research in its role of “communicating marketing activities to senior management” than Cost Leadership or Focus strategy types.

4. That Cost Leader strategy types will have a greater reliance on market research in its role of “achieving productivity and political outcomes” than Differentiator or Focus strategy types.

5. That Cost Leader strategy types will have greater reliance on internal CRM systems than Differentiator or Focus strategy types.

Methodology

In the first research phase, 16 preliminary discussions about market research and its value to the organisations were held with senior marketers and research managers in Australia and the United States. These interviews were used to generate a series of scale items to measure the roles of market research and the characteristics of internal CRM systems.

The second phase of the research was a self-completion survey using an initial mailing, then mail, phone or internet follow-up. A list derived from Dun and Bradstreet of the top 1000 senior marketing managers in for-profit Australian companies comprised the sample frame. Organizations were contacted to confirm the name of the person with major responsibility for marketing. Next a questionnaire was mailed with a subsequent follow-up reminder letter.
Academic colleagues in the Australia and the United States reviewed the questionnaire prior to its completion. A sample of 240 usable replies was received.

To measure the role of market research the seven item scale of Maltz and Kohli (1996) scale was used as well as 11 items generated from the 16 depth interviews. Table 1 shows the market research role variables derived from a Varimax factor analysis and subsequent Cronbach Alpha test. Internal CRM was measured by five items coming from preliminary depth interviews. The items covered CRM, data warehousing and sales, service and billing databases. To measure business strategy a non-hierarchical Wards cluster analysis was undertaken on eight items measuring the Porter strategy types from Pelham and Wilson (1996) and three items from the depth interviews.

One-way ANOVA was used to identify differences between market research roles and CRM usage between the Porter strategies. ANOVA “determines the degree to which differences found between the means of different groups or categories can be attributed to sampling error”. (Hair et al. 1995, p.617). Dunnetts T3 test of significance was used as the Levene test showed unequal variance within the variables used in the ANOVA.

**Findings**

Three strategies were identified by the cluster analysis. These were Cost Leadership, Marketing (i.e. Brand) Differentiators and Product (i.e. Innovative Feature) Differentiators. Previous research by Miller (1987) also identified these forms of the Differentiator strategy.

Table 1  ANOVA Comparison of a) Market Research Roles and b) CRM Reliance for Porter Strategy Types Using 7 point Likert Scales
Seven point Likert scales were the basis of the Table 1 ANOVA results. The Table 1 findings show Marketing Differentiators relying more on market research for a) enhancing strategic decision-making, b) increasing usability of existing data, c) representing marketing activities to senior management and d) productivity and political outcomes than Product Differentiators. Only one difference involved Cost Leaders, i.e. Marketing Differentiators had a greater role for market research in “increasing usability of existing data” than did Cost Leaders. Finally, and surprisingly, no differences in CRM usage were found between the strategy types.

Discussion and Contribution

One purpose of this paper was to test the four propositions which assumed the role of market research would change according to strategic context. While differences were found within the four research propositions these did not occur as anticipated. While only one difference involved the Cost Leader there were four propositions differing between the Marketing Differentiators and Product Differentiators strategies; Types first identified by Miller (1987).

As far as Cost Leaders are concerned it appears they are just as reliant as other strategic types on firstly, internal CRM and secondly, marketing research in the three roles of a) enhancing strategic decision-making b) representing marketing activities to senior management and c) productivity and political outcomes. The only difference found for Cost Leaders was that they have less need for the market research role of “increasing usability of existing data”. It may be that Cost Leaders use market research to find price points or features that can be...
deleted from products to reduce costs (and prices!) and this market research is more straightforward to interpret than research commissioned by Marketing Differentiators. Marketing Differentiators research is more likely to be product positioning related or advertising tracking and may involve emotional bonds with target customers. This research may be more complex to interpret than the research undertaken by Cost Leaders.

In comparing Marketing Differentiators with Product Differentiators there were no CRM usage differences. However, Marketing Differentiators have greater reliance on each of the four “market research roles” discussed in research propositions 1-4. Possibly they are more uncertain when choosing ways to differentiate themselves in the absence of "real" rather than "perceived" product differences. In contrast Product Differentiators appear to use more intuitive decision-making and less market research based decision-making in product innovation and product development strategies. They make strategic decisions on features rather than the emotion of brands. Further, Marketing Differentiators rely on market research in its non-rational or internal political role (Piercy 1983) compared Product Differentiators. This role is encompassed in research propositions three and four.

This study makes an overall contribution to the study of the role of market research as a facilitator of strategy implementation and enhancer of strategic decision-making. This was the first study to measure differences between market research roles and internal CRM usage for the Porter strategies. Previous authors (Hart et al. 1999) have not included strategy as a contingent variable in the different ways organisations utilise market research. The study limitations were a cross sectional design, cross industry sample and single respondent for each business unit. Nevertheless it was a large sample and senior executives responded.

**Research and Practical Implications**

Future researchers using the Porter types should separate Marketing Differentiators from Product Differentiators as grouping these types together may have meant previous researchers findings missed important differences in strategy implementation. In terms of practical findings marketing managers competing with Products (i.e. Product Differentiators) that have objectively “comparable” and “real” rather than “perceived” product differences may find it more worthwhile to invest the marketing budget in product development rather than either advertising or even marketing research.

**References**


