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The Impact of Strategy Orientation on Market Research and CRM Usage

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The Impact of Strategy Orientation on Market Research and CRM Usage

Abstract

Purpose - The Porter strategy types of Differentiation and Cost Leadership are put forward as strategies leading to competitive advantage through the usage of contrasting internal systems. This suggests that businesses with a strategy orientation which may be classified as either Differentiation or Cost Leadership may use their market research and internal CRM systems differently. In examining these relationships in this study a further distinction between two types of Differentiation strategy orientations, labelled Marketing Differentiators and Product Differentiators, is made. Marketing Differentiators put more emphasis on brand based differentiation approach and a more holistic approach to differentiation, whereas Product Differentiators focused on specific product features as differentiators.

Design/methodology/approach - The qualitative phase involved depth interviews with 16 senior marketers. The interviews generated a series of scale items to measure the roles of market research and the characteristics of internal CRM systems. The quantitative phase obtained 240 completed surveys from Australian marketing managers.
Findings - Marketing Differentiators place more reliance than both Cost Leaders and Product Differentiators on using traditional market research in the roles of: a) enhancing strategic decision-making b) increasing the usability of existing data c) representing marketing activities to senior management, and d) achieving productivity and political outcomes. Surprisingly there were no differences in internal CRM usage between the three strategic types.

Research limitations/implications - Future researchers using the Porter strategic types in this area might usefully separate Marketing Differentiators and Product Differentiators when seeking to examine strategy orientations and their impact on the use of market research information and related systems such as CRM. A better understanding of the role and contribution of such systems to strategy would help organisations better direct their attention and resources.

Practical implications - Marketing Differentiators need more sophisticated and complex market research to help them create ‘perceived’ and/or ‘emotional’ product differences. In contrast the competitive advantage of Cost Leaders and Product Differentiators is clearer and more obvious and their market research needs more limited.

Originality/value - This study investigates the role of market research as both an enhancer of strategic planning and as a facilitator of strategy implementation. It also examines and compares differences between market research roles and internal CRM usage for the Porter strategy types.
Keywords – strategy type, strategy orientation, market research, CRM systems, strategy planning, MKIS.

Paper type – Research Paper
**Introduction**

Recent research has highlighted the various alternative roles market research plays in strategic decision-making. Toften (2005) found the instrumental role (i.e. applying findings to an immediate problem) and the conceptual role (i.e. general enlightenment of future issues) of market research to be correlated with marketing performance. In contrast the symbolic or political role of market research did not improve performance. In 2006 Ganeshasundaram and Henley found a paradox in terms of alternative roles of market research. They found that whilst far more ‘background’ research was being conducted, it was considered of less value than ‘decision’ research.

There are other typologies and taxonomies which classify market research roles. 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; Ganeshasundaram 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 it considered. This is despite such major seminal studies such as those of Deshpandé and Zaltman (1982; 1987). This suggests a gap in the market research literature although the work of Souchon et al. (2003) have observed that in the export sector there is ample evidence indicating that export information affects export strategy and its success. Marketing research was one of three contributing information acquisition modes noted by Souchon and Diamantopoulos (1999) in this export context. Despite such occasional positive findings it could be that too much market research is not appropriate for the strategic context in which the organisation finds itself. This reduces the role of market research as a decision-making support.

A second gap in the market research literature is due to the emerging role of internal CRM systems. Researchers such as Javalgi et al. (2006) propose a two way information flow between, on one hand, traditional market research and, on the other hand, CRM systems. They considered this occurs through the intelligence generation aspects of market orientation. The information CRM systems provide may complement or corroborate information from traditional market research. (Malhotra and Peterson, 2001), or may even substitute 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 either MKIS (Ashill and Jobber, 2001) or CRM and the linkage to organisational strategy is minimal.

Recent research by Maltz et al. (2006) examined links between strategy and market information usage. They compared organisations competing with an innovation orientation and organisations competing with a speed (of response) orientation.

This paper uses the Porter strategic types as a means of examining the impact of strategy on both CRM usage as well as alternative roles of market research. For example it is possible that the Porter Differentiator would use CRM to build strong ‘differentiating’ customer relationships although Porter’s Cost Leaders with less innovation focus may use CRM as part of a more defensive customer retention strategy. Further it is possible that the Porter Differentiator would use market research for ‘background’ research as they are focused more on innovation.
and the future. On the other hand Cost Leaders may consider ‘background’ research of less value than ‘decision’ research. Cost Leader may find the instrumental role (i.e. applying findings to an immediate problem) of research more relevant than the conceptual role (i.e. general enlightenment of future issues) of research.

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

Generic conceptualisations of strategy are still in use when academics seek to examine the impact of strategy on differences in internal characteristics of organisations. In 2006 O’Regan and Ghobadian studied differences in the Miles and Snow strategic types and leadership, departmental cooperation and culture. Strategic typologies devised by Miles and Snow (1978) and Porter (1980), assume that the classification of business units or organisations according to marketing strategy provides more specific and appropriate guidelines for human resource, organisational 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 a 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 Slater and Narver (2000) expressed a belief that there would be differences between Prospectors, Analysers, and Defenders in terms of market intelligence generation.
Hypothesised 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.

This is because the Differentiator faces major and more difficult decisions in terms of investing in product innovation relative to the Cost Leader. They would invest more in brand building than Cost Leaders. The marketing decisions would be less about price and more about maintaining a unique difference compared to competitors.

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.

This is because the Cost Leader uses ‘incremental’ market research to a greater extent as opposed to ‘breakthrough’ market research. Cost Leaders have more need for market research to explain past findings. They have a more cost conscious culture than Differentiators and any investment which leveraged past research would be looked at favourably.
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.

This is because the Differentiator operates in an area of greater uncertainty and faces higher risks than Cost Leaders in decisions being made. Senior management will need greater confidence that the actions being taken by marketing managers of Differentiators are ‘on track’. The chance for a ‘big’ mistake is greater.

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.

This is because the Cost Leader needs to show a more immediate return on marketing expenditure. On the other hand Differentiators operate in an area of greater uncertainty than Cost Leaders and have longer term payback scenarios.

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

This is because the Cost Leader operates in an area of greater decision-making certainty in regards to product and customer decisions. In addition Cost Leaders are more familiar with their customers whose needs change slowly.
In summary a gap exists in the market research literature in terms of differences between Porter strategy types and a number of market research roles: 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. In terms of political outcomes Piercy (1983) observed the non-rational use of market research which recognises the politicised information environment inside firms.

The other gap in the market research literature is that regarding differences between the Porter types and the relative reliance and usage of internal CRM systems by each strategy type.

**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. Organisations 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. A final sample of 240 usable replies was received representing a 24% return rate. The sample obtained was in line with Australian industry statistics and a comparison of early returns versus later ones did not reveal any biases. It is also worth noting that the total population of senior marketing managers in Australia was estimated to be around 1200 indicating that the sample achieved is in fact a significant proportion of the overall population.

To measure the role of market research the seven item scale of Maltz and Kohli (1996) was used as well as 11 items generated from the 16 depth interviews. Table I 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. Seven-point Likert and semantic differential scales were used throughout. Although many were derived from five-point scales,
research has shown that both forms are highly correlated (Colman et al., 1997). A seven-point scale however allows for finer discrimination in response and was preferred for this reason. Academic colleagues in Australia and the United States reviewed the questionnaire prior to its completion.

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). Where results are shown to be statistically significant, this is at the 5% level, which is consistent with a sample of this size. 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 Differentiators and Product Differentiators. Marketing Differentiators put more emphasis on brand based differentiation whereas Product Differentiators focused on product features as differentiators. Surprisingly the Focus strategy was not confirmed in the cluster analysis solution. Previous researchers have found variations in the typology from the original Porter typology when using cluster analysis. One example would be research by Miller
(1987) who identified these forms of the Differentiator strategy which were not in the original Porter typology. Seven point Likert scales were the basis of the Table I results.

Table I ANOVA Comparison of a) Market Research Roles and b) CRM Reliance for Porter Strategy Types

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<tr>
<td>Enhancing Decision Making (.90)</td>
<td>Mean (S.D.)</td>
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<td></td>
<td>4.18 (1.81)</td>
<td>4.71 (1.57)</td>
<td>3.52 (2.4)</td>
<td>M&gt;P</td>
<td>6.52</td>
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<td>Increasing Usability of Existing Data (.76)</td>
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<td></td>
<td>3.28 (1.68)</td>
<td>3.99 (1.51)</td>
<td>2.55 (1.99)</td>
<td>M&gt;P,M&gt;CL</td>
<td>12.2</td>
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<td>Communicating Actions to Senior Management (.67)</td>
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<td></td>
<td>3.51 (1.77)</td>
<td>3.82 (1.52)</td>
<td>2.88 (2.18)</td>
<td>M&gt;P</td>
<td>4.58</td>
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<td>Achieving Productivity and Political Outcomes (.63)</td>
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<td></td>
<td>3.10 (1.52)</td>
<td>3.62 (1.52)</td>
<td>2.75 (2.06)</td>
<td>M&gt;P</td>
<td>5.08</td>
<td>0.01</td>
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<td>(b) CRM Proposition</td>
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<tr>
<td>CRM Reliance (.77)</td>
<td>3.94 (2.26)</td>
<td>4.02 (2.18)</td>
<td>3.62 (2.11)</td>
<td>N/S</td>
<td>0.54</td>
<td>0.58</td>
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</table>
The 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 finally, d) productivity and political outcomes than was the case with Product Differentiators. There was only one difference between Marketing Differentiators and Cost Leaders in terms of the four roles of market research being examined. Marketing Differentiators had a greater role for market research in ‘increasing usability of existing data’ than did Cost Leaders. This was the only difference between Cost Leaders and the two forms of Differentiators for any of the four roles of market research.

Finally, and surprisingly, no differences in the usage of internal CRM usage to aid marketing decision making were found between Marketing Differentiators, Product Differentiators or Cost Leaders.

Discussion and Contribution

(1) The impact of marketing strategy on the four roles of market research

The first research gap this study examined was the impact of marketing strategy on the four roles market research fulfils in organisations. The study tested four research propositions using market strategy as an explanatory variable. In other
words the research propositions assumed the role of market research would change according to strategic context. However, while differences between each of the four roles of market research were found according to strategy type only one involved the Cost Leader. 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 their costs (and their prices!) Possibly this market research is more straightforward to interpret than research commissioned by Marketing Differentiators. The research undertaken by marketing Differentiators is more likely to be product positioning related or advertising tracking and may involve the development of emotional bonds with target customers. Marketing Differentiators research may be more complex to interpret than the research undertaken by Cost Leaders.

On the other hand each of the four roles of market research differed in the comparisons between Marketing Differentiators and Product Differentiators strategies. These sub-types of the original Porter Differentiator were first identified by Miller (1987). The Marketing Differentiators have greater reliance than Product Differentiators for each of the four ‘market research roles’ discussed in research propositions 1-4. Possibly Marketing Differentiators are more uncertain when choosing ways to differentiate themselves in the absence of ‘real’ rather than ‘perceived’ product differences. This is because they differentiate themselves more on branding and intangible aspects of their offer rather than
functional and objective product criteria which is the case with the Product Differentiators.

In contrast Product Differentiators appear to use more intuitive decision-making and less market research within their product innovation decision-making processes. Product Differentiators make strategic decisions on features to develop rather than developing the emotion of brands. It is likely that the marketing managers of the Marketing Differentiators are more sophisticated in their use of market research as the role of research is higher in this group than for either Cost Leaders or Product Differentiators.

Another difference between these two Differentiator types is that Marketing Differentiators are more likely to use market research in non-rational or internal political roles. Piercy (1983) has previously identified this ‘misuse’ of market research.

(2) The impact of marketing strategy on the role of CRM

The second research gap this study examined was the impact of marketing strategy on the role of CRM as a source of marketing information. As far as Cost Leaders are concerned it appears they are no more or less reliant than either the Marketing Differentiators or the Product Differentiators on internal CRM. There were also no differences in the role of CRM between Marketing Differentiators
with Product Differentiators. One view is that Cost Leaders rely more on customer retention than acquisition as they have lower priced and older generation products. As a result it could be postulated that systems such as data base marketing and CRM are more likely to be useful. Another competing view is that Differentiators need to offer greater levels of service and need to spot trends in needs quickly and that CRM can facilitate this. The results in this study did not support such speculation.

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. It is important to measure both in a single study. This is because CRM can usurp the traditional role of market research in the way CRM facilitates data mining and tracks consumer interactions and behaviour. By doing this CRM can answer a number of marketing questions that historically were answered by primary external market research. (Weber, 2001; Malhotra and Peterson, 2001) Previous authors (Hart et al., 1999) have not included strategy as a contingent variable to explain the different ways organisation utilise market research.

The study limitations included: a cross sectional design, a cross industry sample and a single respondent for each business unit surveyed. Nevertheless the findings
were based on a substantial sample size of respondents and the respondents were senior marketing executives.

**Research and Practical Implications**

Future researchers using the Porter types should ensure that Differentiators are split into Marketing Differentiators and Product Differentiators. The differences found in this study in terms of the roles of market research between these types suggests that treating these two distinct Differentiator types are the same way will obscure important differences in strategy implementation. It would also be beneficial to separate market research into “decision research” and “background research” (Ganeshasundaram and Henley, 2006). This would allow examination of the notion that Cost Leaders operate in a more certain and predictable environment and research is more for insurance or long term knowledge than short term action. In contrast the more innovative and dynamic environment in which the Product Differentiator operates may mean most research leads to immediate action.

For marketing managers it appears that they need to consider the relationship of their organisational structure in the roles in which market research is utilised. (Maltz et al., 2006) For example, organisations with centralised structures are likely to encourage more non-rational and political uses of market research.
For market research managers of Marketing Differentiators greater communication skills may be required. This is because the issues they must communicate in their research (and request from suppliers in research briefs) will be subtle, complex and sophisticated aspects of branding and differentiation as their products and services have little ‘objective’ competitive advantage. On the other hand the market research undertaken for Product Differentiators and Cost Leaders will relate to more obvious feature and price differences with competitors.

References


