



# MARKETING MANAGEMENT

Shaping the Profession of Marketing • January/February 2002

## Marketing in Changing Times

**Does Online Privacy Really Matter?**

**SEGMENTATION THAT WORKS**

**Legal obstacles to e-commerce**



## Marketing Makes a Difference

Even in trying times, research plays an important role.

By John R. Hauser

**MARKETING RESEARCH IS** an example of the freedom of expression. By its very nature, marketing research represents a philosophy that everyone's voice must be heard and that those in power should listen to everyone's opinions. When we run a huge cluster analysis to find customer segments, we are actually searching for diversity and finding a means to serve those diverse needs.

Product development is a key strength of the industrial world's economies, and a key aspect of product development is designing products that meet and exceed customers' needs. This has been a personal goal for more than 30 years. And I can say confidently that we, as a profession, have found better and more efficient methods to ensure that product-development teams listen to the voice of the customer and incorporate this voice in their product (and service) designs. Consumers are served better and many firms are more profitable because we have found ways to give the customer a chance to participate in product design.

Marketing research methods also find application outside the consumer sectors. I have been fortunate to work

with MIT students who are also officers in the U.S. military, and I have been able to help these students apply marketing research methods to design better systems. For example, one student was concerned with crew retainment in the U.S. Coast Guard and conducted a large-scale survey to understand the needs and desires of enlisted personnel as part of an effort to make shipboard living better. Given the magnitude of the training cost for new recruits, he felt that, if the USCG could increase the chances that enlisted personnel would choose to serve another tour, then there would be increased readiness and lower lifetime costs.

Another student worked with the U.S. Navy to understand the incentives in the acquisition of new systems. His surveys investigated the use of "commercial off-the-shelf" components as part of acquisition reform. And, finally, a third student used surveys and the "metrics thermostat" to understand how better to sustain the U.S. Air Force's F-16 fleet. These students are now on active duty and are using these methods to improve our readiness.

Over the last three years, my MIT colleagues and I have been working on something we call the Virtual Customer Initiative (VCI). No, the customers are not virtual, but the methods all use new information technologies to make marketing research more efficient. We have been fortunate to have funding from industry and the National Science Foundation.

I will give you three quick examples. First there is the Information Pump developed by Drazen Prelec. In this online "parlor game," the incentives to respondents are fine-tuned to encourage them to tell the truth and think hard. For example, their (varying) reward is maximized when they're honest and when they articulate new customer needs that are not redundant with previously stated needs. The Information Pump is easy to implement and pro-





vides input to product development that is more creative than extant qualitative methods.

Another example is Web-based fast polyhedral adaptive conjoint estimation (FastPace). With FastPace we've been able to incorporate new ideas in math programming to come up with conjoint methods that provide more accurate estimates with fewer questions. In one comparison we collected data and then gave respondents an actual choice of a product worth approximately \$100. (If they chose a lower priced product, they pocketed the cash.) FastPace proved more accurate than either adaptive conjoint analysis (ACA) or efficient fixed designs. Although FastPace works with metric paired comparison data, versions exist for choice-based tasks where the sets of product profiles are chosen adaptively. The adaptive CBC method provides respondent-level estimates.

A final example is securities trading of concepts (STOC) developed by Ely Dahan, Andy Lo, and Tommy Poggio. These researchers have set up stock-market-like trading rooms where consumers buy and sell virtual product con-

cepts. While the method is still being tested, in at least one product category, a STOC application, run for 80 minutes, predicted quite well the features consumers preferred.

I encourage you to explore our Web site and try some of these methods with your clients. Our goal is dissemination—none are proprietary. For more information on the details of these methods, visit [mitsloan.mit.edu/vc](http://mitsloan.mit.edu/vc). There you will find online demonstrations, open-source code, and both published and working papers along with PowerPoint slides to describe the methods. You can even download standalone demos that will run on your local machines. (See Exhibit 1.)

I'm proud to be a marketing researcher and educator and I know that those of us in this profession are indeed making a difference. ■

### About the Author

John R. Hauser is Kirin Professor of Marketing, MIT Sloan School of Management. The foregoing text was adapted from remarks he made on Sept. 24, 2001, when he received the Charles Coolidge Parlin Award from the American Marketing Association and the Parlin Award committee.

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## EXHIBIT 1

Virtual customer methods



