Part One

**Introduction**

### Chapter 1

#### The Role of Business Research

**AT-A-GLANCE**

I. The Nature of Research

A. Business research defined

B. Applied and basic business research

C. The scientific method

II. Managerial Value of Business Research

A. Identifying problems or opportunities

B. Diagnosing and assessing problems or opportunities

1. Selecting and implementing a course of action
2. Evaluating the course of action

III. When Is Business Research Needed?

A. Time constraints

B. Availability of data

C. Nature of the decision

D. Benefits versus costs

VI. Business Research in the 21st Century

A. Communication Technologies

B. Global business research

# LEARNING OUTCOMES

1. Understand how research contributes to business success
2. Know how to define business research
3. Understand the difference between basic and applied business research
4. Understand how research activities can be used to address business decisions
5. Know when business research should and should not be conducted.
6. Appreciate the way that technology and internationalization are changing business research.

# CHAPTER VIGNETTE: ESPN Hits a Home Run by Leveraging the Power of its Business Research

The Entertainment and Sports Programming Network (ESPN) was launched in 1979 and has become a media juggernaut, expanding globally and in every possible outlet. ESPN.com is one of the most visited sites on the World Wide Web. Information has been slowly accumulating as people interact with ESPN content, but this information was located in separate databases and across different operating units. ESPN partnered with Quaero, a business research company that specializes in customer intelligence, integrating databases and learning more about how fans use their media, and what specifically they were looking for. Enhancing the fan’s experience had bottom-line implications for their revenue and the revenue of their advertisers. It was business research that made this possible.

# SURVEY THIS!

This feature allows students to better understand the researcher’s job in determining what information is needed so that data can be analyzed and become intelligence. This first interaction with the “Survey This!” feature is for students to play the role of respondent and respond to the survey. Instructors need to provide instructions to access the questionnaire via the Internet.

# RESEARCH SNAPSHOTS

* **Harley-Davidson Goes Abroad**

Before Harley-Davidson goes overseas, it must perform considerable research on that market. Consumers in some countries might prefer economical and practical motor bikes (e.g., France or Italy); others might find Harley more prestigious. Harley learned that positive consumer opinions and a booming economy were not enough to move into India because high duties and emission rules would make them cost prohibitive. One opportunity for Harley to investigate is the growing U.S. women’s market for bikes, which has nearly doubled since 1990.

* **Business Class Success?**

Overseas business class airfares often cost between $5,000 and $10,000. Research shows that business class travelers want comfort, quality food, and convenience on boarding. A few startup airlines are offering “discount” business-class only airlines. That is, no coach class seats and business class seats with fares ranging between $1,600 and $3,800. However, the startups failed. Could more effective business research have determined these were not feasible business ventures?

* **“Jacques” Daniels**

U.S. distilled spirits sales have declined over the last 10-15 years as more Americans turn to wine or beer. As a result, these marketers have increased efforts to expand into international markets. The producers of Jack Daniels conducted research and learned that (1) Japanese consumers use Jack Daniels as a dinner beverage, (2) Australian consumers mostly consume distilled spirits in their homes, (3) British consumers also like mixed drinks, but they usually partake in bars and restaurants, and (4) in China and India, consumers more often choose counterfeit or “knock-offs” to save money. One-half of all Jack Daniels sold is now sold outside of the U.S.

# OUTLINE

**I. THE NATURE OF BUSINESS RESEARCH**

* Business research covers a wide range of phenomena.
* For managers, the purpose of research is to provide knowledge regarding the organization, the market, the economy, or another area of uncertainty.
* While researchers in different functional areas may investigate different phenomena, they are similar to one another because they share similar research methods.
* The ultimate goal of research is to supply accurate information that reduces the uncertainty in managerial decision making.
* **Business Research Defined**
* **Business research** is the application of the scientific method in searching for the truth about business phenomena.
* The process includes:
  + idea and theory development
  + problem definition
  + searching for and collecting information
  + analyzing data
  + communicating the findings and their implications
* This definition suggests that business research:
  + information is not intuitive or haphazardly gathered
  + is accurate and objective, using the scientific method
  + is designed to facilitate the managerial decision-making process for all aspects of the business: finance, marketing, human resources, and so on.
  + is limited by one’s definition of business
* **Applied and Basic Research**
* **Applied business research** is conducted to address a specific business decision for a specific firm or organization.
* **Basic business research** (sometimes referred to as pure research) is conducted without a specific decision in mind and it usually does not address the needs of a specific organization.
* Attempts to expand the limits of knowledge in general, and as such it is not aimed at solving a particular pragmatic problem.
* However, there are very few aspects of research that apply to only basic or only applied research.
* This text uses the term business research more generally to refer to either type of research.
* **The Scientific Method**
* All research, whether basic or applied, involves the scientific method.
* **Scientific method** is the way researchers go about using knowledge and evidence to reach objective conclusions about the real world.
* Involves developing hypotheses and testing them against empirical evidence (facts from observation or experimentation). From these results, new knowledge is acquired.
* Use in basic research leads to inferences and conclusions about phenomena and leads to the establishment of general laws.
* Use in applied research ensures objectivity in gathering facts and testing creative ideas for alternative business strategies.

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**II. MANAGERIAL VALUE OF BUSINESS RESEARCH**

* In all of business strategy, there are only a few business orientations:
* **Product oriented** – the firm prioritizes decision making in a way that emphasizes technical superiority in the product. Research is not a priority.
* **Production oriented** – the firm prioritizes efficiency and effectiveness of the production processes in making decisions (i.e., drive costs down). Research is not a priority.
* **Marketing oriented** – focuses on how the firm provides value to customers more than on the physical product or production process.
* The prime managerial value of research is that it provides information that improves the decision-making process.
* The decision-making process associated with the development and implementation of a business strategy involves four inter-related stages:

1. Identifying problems or opportunities.
2. Diagnosing and assessing problems or opportunities.
3. Selecting and implementing a course of action.
4. Evaluating the course of action.

* **Identifying Problems or Opportunities**
* Business research can help managers plan strategies by determining the nature of situations or by identifying the existence of problems or opportunities.
* Business research may be used as a scanning activity to provide information about what is occurring within an organization or in its environment.
* **Diagnosing and Assessing Problems or Opportunities**
* After a problem or opportunity is identified, business research can help clarify the situation by revealing underlying factors causing the situation, exploring, refining, and quantifying an opportunity, or assist in setting priorities.
* **Selecting and Implementing a Course of Action**
* After the alternative courses of action have been clearly identified, business research is often conducted to obtain specific information that will aid in evaluating the alternatives and in selecting the best course of action.
* **Evaluating the Course of Action**
* Business research may serve as a tool to tell managers whether or not planned activities were properly executed and if they accomplished what they were expected to accomplish.
* **Evaluation research**—the formal, objective measurement and appraisal of the extent a given activity, project, or program has achieved its objectives.
* **Performance-monitoring research** refers to research that regularly, sometimes routinely, provides feedback for evaluation and control of recurring business activity.

**III. WHEN IS BUSINESS RESEARCH NEEDED?**

* The determination of the need for research centers on:

1. time constraints
2. availability of data
3. nature of the decision
4. value of the research information in relation to costs

* **Time Constraints**
* Systematic research takes time.
* Sometimes the urgency of a situation precludes the use of research.
* **Availability of Data**
* When managers lack adequate information, research must be considered.
* Data need to be collected from an appropriate source and in a timely fashion.
* **Nature of the Decision**
* The more strategically or tactically important the decision, the more likely it is that research will be conducted.
* **Benefits versus Costs**
* When deciding whether to make a decision without research or to postpone the decision in order to conduct research, managers should ask three questions:

1. Will the payoff or rate of return be worth the investment?
2. Will the information gained improve the quality of the managerial decision enough to warrant the expenditure?
3. Is the proposed research expenditure the best use of the available funds?

**IV. BUSINESS RESEARCH IN THE TWENTY-FIRST CENTURY**

* Business research, like all business activity, continues to change, largely due to changes in:
* Communication technology
* Global marketplace
* **Communication Technologies**
* Virtually everyone is “connected” today.
* The expressions “time is collapsing” and “distance is disappearing” capture the tremendous revolution in the speed and reach of our communication technologies.
* Technology has made for easier data collection and data analysis.

* **Global Business Research**
* Companies that conduct business in foreign countries must understand the nature of those particular markets and judge whether they require customized business strategies.
* Places greater demands for research tools that allow us to **cross-validate** research results, meaning that the empirical findings from one culture also exist and behave similarly in another culture.

**QUESTIONS FOR REVIEW AND CRITICAL THINKING/ANSWERS**

1. Is it possible to make sound managerial decisions without business research? What advantages does research offer to the decision maker over seat-of-the-pants decision making?

Business research attempts to supply accurate information that reduces the uncertainty in decision making. Very often, decisions are made with little information because of various reasons including insufficient time to conduct research or because a manager believes that enough is already known. Relying on seat-of-the-pants decision making—decision making without research—is like betting on a long shot at the racetrack because the horse’s name is appealing. Occasionally there are successes, but in the long run, intuition without research leads to losses. Research helps decision makers shift from intuitive information gathering to systematic and objective investigating.

2. Define a marketing orientation and a product orientation. Under which strategic orientation is there a greater need for business research?

A product-oriented firm prioritizes decision making in a way that emphasizes technical superiority in the product. Thus, input from technicians and experts in the field are very important in making critical decisions. A marketing-oriented firm focuses more on how the firm provides value to customers than on the physical product or production process. With a marketing-oriented organization the majority of research focuses on the customer, so research addressing consumer desires, beliefs, and attitudes becomes essential.

3. Name some products that logically might have been developed with the help of business research.

Students should be able to come up with a wide variety of answers. Typically they will suggest tangible goods. Most will avoid mentioning services (e.g., airlines, tune-up centers, etc.) and nonprofit situations (e.g., a political campaign).

4. Define business research and describe its task.

Business research is the application of the scientific method in searching for the truth about business phenomena. These activities include defining business opportunities and problems, generating and evaluating business ideas, monitoring performance and understanding the business process. It is very important that the definition recognize that business research is more than conducting surveys. This process includes idea and theory development, problem definition, searching for and collecting information, analyzing data and communicating the findings and their implications.

5. Which of the following organizations are likely to use business research? Why? How?

All of these organizations can use business research. However, the business research in each situation will be of a different nature. While there is no specific information given in the text from which to draw on for this discussion, some suggestions for discussion are given below.

a. Manufacturer of breakfast cereals

It is highly likely that a breakfast cereal manufacturer will use extensive research for almost all aspects of the business program. In a 12-year period, there were 77 new cereal brands introduced and only 18 of those 77 brands were able to maintain adequate sales. Brands such as Kream Krunch, Pink Panther Flakes, Fruit Brute, and many others have failed in the marketplace. An interesting example of business research for product development was the development of Quaker’s Halfsies cereal, a cereal with half the sugar of most presweetened cereals. In tests markets, the animated commercials aimed at children were built around a “land of half.” This product was developed based on consumer research indicating parents were in a quandary about presweetened cereals. The children wished to have sweet cereals but the parents were concerned about the sugar content of the cereals. To avoid the problem of too much sugar, Halfsies was developed. The product was successful for several years.

b. Manufacturer of nuts, bolts and other fasteners

An industrial marketer of nuts, bolts, and other fasteners, like a consumer goods marketer, has a need to acquire information to reduce uncertainty. The industrial goods marketer will use many of the same business research techniques, but there will usually be a difference in the nature of its customers and the nature of its information needs. Industrial marketers, like consumer marketers, need to answer questions such as: What is the size of the market? Who are our current and prospective customers? What attitudes do they hold? The source of data may vary. However, industrial customers are usually contacted on a personal basis. Industrial marketers may focus more on internal sales information on accounts and feedback from salesmen.

c. The Federal Trade Commission

The Federal Trade Commission is concerned with several aspects of business activity. Visit their web site at [www.ftc.gov](http://www.ftc.gov).

d. A hospital

A hospital would be interested in investigating consumers’ perceptions and satisfaction with the hospital services, employee satisfaction, supplier evaluation, financing options, and so on. Business research could also be useful gauging the need for expanded services in the community.

e. A company that publishes business textbooks

A publisher of these types of books could conduct secondary research (e.g., examine demographic trends, analyze university programs to understand their needs, etc.) and primary research (e.g., focus groups, surveys, interviews, etc.) to determine market potential and needs of this market.

6. An automobile manufacturer is conducting research in an attempt to predict the type of car design consumers will desire in the year 2020. Is this basic or applied research? Explain.

In this situation the automobile manufacturer needs information to make a specific decision. Although the decision is many years away, this is applied research because the decision is about a particular course of action or policy area.

7. Comment on the following statements:

a. Managers are paid to take chances with decisions. Researchers are paid to reduce the risk of making those decisions.

This statement illustrates a role that business research plays. A researcher’s job is to provide information to reduce uncertainty, but ultimately the manager is responsible. Business managers must ultimately make the decision, and they take the credit or blame for success or failure. Business managers may be risking a lot of money, and it may be well worth it to spend a little bit of money on business research to learn if the big risk is worth taking.

b. A business strategy can be no better than the information on which it is formulated.

Managers need timely, accurate, and pertinent information to make decisions to identify and evaluate opportunities, diagnose and assess them, select and implement a course of action, and evaluate that course of action. With the wrong information, a strategic plan may be destined to fail no matter how properly it is executed.

c. The purpose of research is to solve business problems.

The purpose of business research is to reduce uncertainty and to provide information to allow managers to make decisions. Although the information provided might help the manager make the right decision, it does not *solve* business problems in and of itself. Although business research may not provide all the information that would be desirable before making the decision, it can provide a framework within which better decisions can be made.

8. List the conditions that help a researcher decide when research should or should not be conducted.

The determination of the need for research centers on (1) time constraints, (2) the availability of data, (3) the nature of the decision to be made, and (4) the value of the research information in relation to costs.

9. How have technology and internationalization affected business research?

Business research, like all business activity, continues to change. Changes in communication technologies and the trend toward an ever more global marketplace have played a large role in many of these changes. Virtually everyone is “connected” today, the speed with which information can be exchanged has increased tremendously, and changes in computer technology have made for easier data collection and data analysis. Business research has become increasingly global as more and more firms take advantage of markets that have few, if any, geographic boundaries. Companies that conduct business in foreign countries must understand the nature of those particular markets and judge whether they require customized business strategies. The internationalization of research places greater demands on the business researcher and heightens the need for research tools that allow us to cross-validate research results, meaning that the empirical findings from one culture also exist and behave similarly in another culture.

10. [Internet Question] How do you believe the Internet has facilitated research? Try to use the Internet to find the total annual sales for Starbucks and for DuPont.

The Internet has made it possible to collect data for lower costs than in the past. Electronic communications are usually less costly than postal mail and certainly less costly than a face to face interview and cost about the same amount no matter how far a respondent is from a researcher.

The instructor needs to access the information regarding total sales because more recent information will be available annually. The most recent information available at the time of this writing is as follows:

Starbucks’ 2011 sales were $11.7 billion. This information was gathered from Starbucks’ 2011 Annual Report (<http://investor.starbucks.com/phoenix.zhtml?c=99518&p=irol-reportsAnnual>).

DuPont’s 2010 revenue was $31.505 billion.

(<http://www2.dupont.com/Sustainability/en_US/assets/downloads/2011_DuPont_GRI_Report.pdf>).

11. What types of tools does the researcher use more given the ever increasing internationalization of business?

The tools used by the business researcher are essentially the same. However, the internationalization of research places greater demands on business researchers and heightens the need for research tools that allow us to cross-validate research results, meaning that the empirical findings from one culture also exist and behave similarly in another culture.

**RESEARCH ACTIVITIES**

1. [Internet Question] Suppose you owned a jewelry store in Denton, Texas. You are considering opening a second store just like your current store. You are undecided on whether to locate the new store in another location in Denton, TX or in Birmingham, AL. Why would you decide to have some research done before making this decision? Should the research be conducted? Go to <http://www.census.gov>. Do you think any of this information would be useful in the research?

Students should indicate an understanding of basic demographic variables that would be of interest, such as population and income distribution. They should also analyze the competitive environment in each city they are examining. Whether or not research should be conducted will depend on the owner’s level of knowledge concerning this type of retail store and the location being considered. For example, this owner may have considerable knowledge about Denton, TX because that is where the original store is located. However, he or she may be completely unfamiliar with Birmingham, AL and would require formal research to gain a better understanding of this market.

1. [Internet Question] Find recent examples of news articles involving the use of business research in making decisions about different aspects of business.

Students’ responses will vary on this exercise. Instructors may want to assign different students different functional areas of business and have them present their articles to the rest of the class.

1. [Internet Question] Find an article illustrating an example of an applied research study involving some aspect of technology. How does it differ from a basic research study also focusing on a similar aspect of technology?

While students will find varying articles, they should demonstrate knowledge regarding the difference between applied and basic research. Applied research is conducted to address a specific decision for a specific firm or organization. Basic research is conducted without a specific decision in mind and it usually does not address the needs of a specific organization.