



# Market Research

**START  
MODULE**

**“If we knew what we were doing it wouldn't be called research”**

**Albert Einstein**

Whatever your business it will only succeed if customers like your product or service and are prepared to give you money in exchange. People rarely buy things just for the sake of owning them; they buy things to enable them to do the things they want to do to fulfil their needs. That is why it is important to undertake thorough market research and to assess the results of that market research carefully. Do not get overly carried away with your enthusiasm – see things as they are, not as you would like to see them. Before launching a new product or service you need to be able to:

1. Define your position in the market place.	2. Determine the price your customers will be prepared to pay.	3. Identify your potential customers, their needs and expectations.
4. Define your product or service.	5. Identify the level of quality and service your customers require.	8. Decide where your marketing campaign should be conducted.
7. Estimate your potential market share.	6. Describe your competitors, what they offer, their strengths and weaknesses.	9. Describe how best to communicate your message to your perspective customers.

The more detailed your market research the sounder, more reliable the rest of your business planning will be. Market research identifies customer potential. Take time to do it properly and repeat it until you get results that are reliable. Remember, by finding out what customers want and then providing them with it at a profit, your chances of success are vastly increased. Here are some key research issues.

### 1. Customer profile

Who are the buyers of your product or service likely to be? How many will actually buy?  
How can you define or describe them? Where are they? How can they be located?

### 2. Customer attitudes & requirements

Why will they buy? What motivates them to buy? What particular benefits are they looking for?  
How do they judge value for money? How do they want to be able to buy? How do they go about making buying decisions? Who or what plays a part in making buying decisions, or can influence the decisions?

### 3. Competition

What is being offered at the moment and by whom?  
What actually sells at the moment? How are their products being sold? Where and from who do customers buy? What do customers think of their existing suppliers and products/services?  
What would encourage them to switch?

#### 4. Market size (volume and value)

How many existing and prospective buyers are there?  
How often are they likely to buy? How much of each type of product is being sold? At what prices? Are prices very similar or widely different? Why? What price will buyers be willing to pay? How price sensitive is the market?

#### 5. Market structure

What is the typical supply chain like – materials suppliers, manufacturers, distribution channels, customers, end-users? Who buys what from whom? How many operators are there – and who are the key players – at each stage in the supply chain? At what stage of development is the market – new, growing, well-established, declining?

#### 6. Environmental forces

What factors have a major influence on market development – political activity, economic trends, social issues, technological development, balance of supply and demand, market entry barriers, resource issues? How are these factors affecting the market – growth rates, trends, structure, stability, customer preferences, profitability, etc.?

#### 7. Specific considerations

Are there any special regulations or standards to meet? With what legislation must you comply?

## Market forces

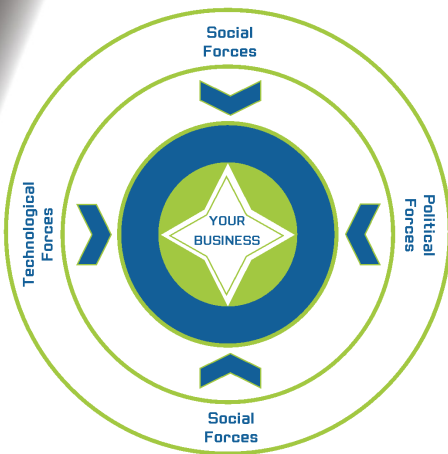
As you undertake your research, it may help to bear in mind some of the competitive forces on your business. Your position in the market place is all important and you need to consider the basic competitive market forces which impinge on any business. These are:

1. Rivalry among existing businesses competing to supply the same product or service.
2. The threat of new entrants in the marketplace and the impact they may have. If the barriers to entry are high there is much less of a threat to existing players than if it is fairly easy for a new business to join in the fun. Conversely, as a new entrant you will be happier if there are few factors that pose a major block to entering your chosen market.
3. The threat of substitute products or services, including those which, though different to yours, might provide similar benefits. Customers may have the choice not only of buying your particular type of products or services – from you or your direct competitors, but also of choosing a substitute method of solving the problem.

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4. The bargaining power of suppliers and, in particular, their effect on costs. If the supplier of a particular product or service has little competition or is a monopoly, you may find it difficult to negotiate arrangements which are cost effective. You may need to look for substitutes.
5. The bargaining power of customers, and in particular, their effect on prices. Without customers there is no market. They usually have notable buying power simply because they are in a position to choose from whom they buy – although this is not necessarily the case. You may be fortunate in being the sole supplier of a particular type of product or service aimed at a particular target group – often called niche marketing.

Part of the role of market research, then, is to examine these forces and to be able to make informed decisions.



### Opportunities and Threats

You will be successful with your business if you can identify opportunities in the marketplace and avoid the threats. A thorough analysis and, once started, the continued gathering of market intelligence should enable you to keep an eye on both. Take a moment to brainstorm opportunities and threats caused by the PEST factors (political, economic, social and technological) and by the market factors.

### Positioning your business

Thinking carefully about the market place and pressures will help you to think about your likely customers. Who do you see are your customers? Can you define them precisely? How will they perceive your product or service? Have you considered, for example, whether it will be a high quality, high price, premium product or a low cost, low price, commodity product? Competitive advantages such as these are known as differentiation and cost leadership. Furthermore, you may decide to focus on a fairly narrow market profile or segment. The way you choose to position your product will be reflected in the way that you promote it, the image and in the businesses that you see as competitors.



## Profiling Customers

All businesses need to identify and then target accurately their prospective customer groups. A product/market matrix can help; products or needs are shown in columns and customer groups or segments in rows. It is important to satisfy the needs of your customers. When asked what his business did, Charles Revlon, founder of Revlon cosmetics, replied, “In the factory we make cosmetics; in the store we sell hope”. In other words, businesses sell features, but people buy benefits.

Maslow, the eminent American psychologist, suggested that, “All customers are goal seekers who gratify their needs by purchase and consumption”. He classified needs in a five stage pyramid known as the Hierarchy of Needs. The first and largest need was physiological (hunger and thirst), followed by safety, a feeling of belonging, self-esteem and status and at the top of the pyramid, self-realisation and a sense of achievement. Where are your customers on the ‘needs’ hierarchy and how can your product or service help them to achieve their goals? What benefit would they gain from your product or service? The benefit must be more valuable to the customer than the features cost you, the supplier, to deliver.

Whilst it is important to understand your customers’ needs, do not be totally constrained by what they tell you. You have to make some effort to anticipate what future needs they would like to have satisfied. Refer back to your list of opportunities and threats. Think about the possible needs of customers, all of which are opportunities. Describe, as precisely as you can, your expected

## Researching Your Market

By now, you should have a pretty good idea of the structure of the marketplace and your possible position within it. The next step is to undertake more detailed research to confirm and expand your understanding of the marketplace – and to give you the information required to convince others to back your idea. Information about your potential customers and your competition can be collected in two ways: using secondary information sources, for example, published sources, or by carrying out primary research such as talking to and observing your customers, potential customers and others’ customers directly.

In a nutshell, market research is observation, experimentation and asking questions.

## Key questions

### Customers:

What type of person/business will buy your product or service?

How much spending power do they have?

Will this rise or fall?

How do I let them know about my product or service?

What do they want from my product or service?

Why would they buy my product or service?

### Competitors:

Is anyone doing this already?

What do they charge?

Are there gaps in the market?

Is anyone likely to muscle in?

Are they any good at it and why?

What methods/equipment do they use?

### Operations:

How much will I charge?

What level of funding will I need?

Where can I get funding?

What specialist skills are needed?

How many am I likely to sell?

What specialist regulations will I need to meet?

## Trends In Your Market

The current state of sales in the market as a whole will have important implications on the viability of a business starting up. You need some idea of the market size in order to work out how much of your product or service you can realistically expect to sell. You should be able to identify whether your market is static or changing rapidly, whether what you are offering has a stable demand or is just a craze. Is the market seasonal? If so, can you better prepare for the troughs? Can this time be used for building up stock or finding new customers for later on?

Technology has made the gathering of secondary data so much easier – use it to learn about your proposed market. How big is it? How many suppliers are there already? Describe any identifiable market trends. Describe your likely customers, as precisely as possible. Online information, however, cannot answer all your questions.

Most small and medium sized businesses are unique or specialised in some way so it is likely that the bulk of useful data will have to be gathered by you. Bear in mind that imaginative and thorough market research will impress those who you want to support your business, as well as providing you with valuable management information.

A number of channels can be utilised to gather primary research including customer surveys gathered either face to face, by telephone or online.

Here are a few do's and don'ts for good questionnaires:

#### Do's:

- Have a logical order.
- Keep the wording as simple as possible.
- Put easy and interesting questions first.
- Try to make the first question fix the factor under review.
- Do a mock analysis of your questionnaire before conducting your research.
- Keep confidential and personal matters and complex questions towards the end.
- Be precise, e.g. not "Do you watch TV regularly?" but, "Do you watch TV every day?"
- Ask questions in the past tense, that way you are more likely to get a truthful answer.
- Define the target audience e.g. it is not possible to check the 16-25 year old fashion market by surveying people who are retired.

#### Dont's:

- Keep the questions to respondent's personal experience.
- Ask leading questions, which imply an answer.
- Use emotive words, e.g. "Do you buy cheap brands?" ("Low cost" is preferable).
- Ask double barrelled questions, e.g. "Do you like the colour and design of this dress?"
- Ask questions which involve loss of status for the respondent, e.g. "Can you afford a car?"
- Ask questions the respondent probably cannot answer e.g. "What is your husband's favourite beer?"
- Touch on certain topics (or else phrase the question carefully), e.g. "Tell me your exact income" ("No" would be the answer). Instead, give a choice of income bands.

Interviews are particularly worthwhile for existing businesses with existing customers and suppliers. They are in the unique position of having a clear view of how the business is regarded and will be able to suggest what improvements can be made.

## **Market Research**

A focus group is simply a number of people who discuss your product or service – what they think of it, whether they would buy it, whether they think others will buy it, etc. It is important to collect together people whose opinions you will value – this means assembling people who match your customer profile.

If you decide to use focus groups to gather market intelligence, remember some of the principles of effective communication. Plan your questions:

1. Use open questions.
2. Listen actively.
3. Clarify and summarise to check understanding.

Now do some primary research. Prepare and pilot a questionnaire – then do a larger survey. Alternatively, organise a focus group. Ask about customer needs and preferences. But use the opportunity to ask about your competitors as well – particularly their strengths and weaknesses. Analyse the results and describe what you have learnt about your potential customers and about your competitors.

### **Competitors**

Gathering information about your competitors is crucial, as this knowledge will play an important part in determining your strategy. You have to know everything about them: their product range, prices, discount structure, delivery arrangements, specifications, minimum order quantities, terms of trade and the kind of advertising that competitors use, where they advertise and with what success, what their customer profiling mix is and why customers buy from them.

Finding out information about your competitors may not be as difficult as it may seem. For instance, if you have experience within your market, you may already know a great deal about the competition. And you will probably know who you can talk to within the industry in order to find out more. Building up a number of contacts in your field will be useful for keeping up to date with what is happening in the market, and they can also be sources of advice.

Even if you are new to a particular market, there is a certain amount of information available to you. Trade journals and websites are a useful source of information, with articles on your competitors and advertisements. If your competitors are companies, they have to publish an annual report – these can be obtained from Companies House if they do not publish one formally.

Gather copies of your competitors marketing materials; make sure that you have copies of their current price lists. Find out how they handle enquiries, what questions they ask, and what they perceive is important to their customers by their answers.



Finally, if you're feeling brave, you could talk to your competitors yourself (or get a friend to do it) and ask for brochures, sample quotes, or even purchase one of their products. Whether you admit to being a prospective, or an actual competitor, is up to you!

Competitive Analyse Template								
Factors	My Business	Strengths	Weaknesses	Competitor 1	Competitor 2	Competitor 3	Importance to customers	Remarks
Products								
Price								
Quality								
Selection								
Service								
Reliability								
Expertise								
Stability								
Reputation								
Location								
Appearance								
Employee								
Company Culture								
Advertisement								
Market Growth								

## Sales Forecasting

Unlike existing businesses, new ventures will have no previous performance upon which to base any sales forecast. However, determining what level of sales you can expect to achieve is a crucial part of the planning process – without this, you can have no real idea of whether your business will be able to make a profit. You can use market statistics to help determine sales, by allowing each competitor a certain share of the market. However, not all competitors will have an equal share – factors such as price, location of premises, quality of product or service, image and positioning of company will all influence market share.

When predicting likely sales for a new business, it is important to verify any estimate of market share with your own research. Information from questionnaires and focus groups will give you an indication of the level of interest, while market testing will provide evidence on the viability of your product or service. If you need to borrow money, this will be particularly important when approaching the banker!

Most small businesses should aim for zero based forecasting. That is, each time you forecast, do your best to look at the total market and your likely share. Is the market expanding or contracting? Talk to your major customers about their likely purchases from you next year.

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Are you planning additional marketing? What is the likely effect of that market? Will you be putting up your prices? If so, what is the likely effect of that on your sales? Use all this information to predict as accurately as possible your sales both by value and by volume.

If you have more than one product, sales budgets should be prepared for each of them. If you sell in more than one area, then it may be helpful to have a sales forecast for each area. You should also aim to prepare your sales forecast on a monthly (or quarterly) basis.

Stakeholder or Dept: _____							Date: _____		
	NEW BUSINESS			REORDERS			TOTAL		
	Target	Actual	Variance	Target	Actual	Variance	Target	Actual	Variance
Jan									
Feb									
Mar									
Apr									
May									
Jun									
Jul									
Aug									
Sep									
Oct									
Nov									
Dec									
Year									

Having undertaken and completed your market research you will now be in a position to use the information to formulate the plans of your business – it may show up weaknesses in your market research. If it does, take the time to address those weaknesses – it will be time well spent.

Finally, remember that market research is a continuing process to assimilate information to help you make good business decisions – it never stops, The market tomorrow will have changes; you are only as good as your current knowledge of the market place.

The information contained in this document is for guidance only and should not be relied on without obtaining appropriate advice. The information is not intended to render legal advice and is general information only.