

Market research for the first time



Market research for the first time is one of the “Become a Successful Owner Manager” series and introduces a topic of crucial importance for every business. Whatever you choose to do, your business will only be a success if customers like what you are offering and are prepared to give you money in exchange. People buy to enable them to do what they want to do and to fulfil their needs. Unless you have an idea of your specific target customers and an understanding of those needs, you will find it very difficult to market your product or service. To help you understand fully the role of market research, it will help if you read this in conjunction with “Marketing for the first time” and “Personal selling made easier”.

This book’s objectives are:

- ▶ to explain the importance of thorough market research;
- ▶ to introduce you to primary and secondary research and to suggest ways in which you might go about your own market research; and,
- ▶ to suggest ways in which you can accurately profile your chosen customer group.

The Series

- ▶ Planning to start in business
- ▶ Unlock your potential
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- ▶ Organising your business and keeping it legal
- ▶ Financial forecasting for the first time
- ▶ Writing your first business plan
- ▶ Employing people for the first time
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Become a successful owner manager Market research for the first time

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Market research for the first time

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:

- ▶ define your position in the market place;
- ▶ define your product or service;
- ▶ identify your potential customers, their needs and expectations;
- ▶ determine the price your customers will be prepared to pay;
- ▶ identify the level of quality and service your customers require;
- ▶ describe your competitors, what they offer and their strengths and weaknesses;
- ▶ describe how best to communicate your message to your prospective customers;
- ▶ decide where your advertising campaign should be conducted; and,
- ▶ estimate your potential market share.

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. The table below sets out some of the key research issues.

Research topic	Typical questions
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?
Customer attitudes and 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?
Competition	What is being offered at the moment and by whom? What actually sells at the moment? How are these products being sold? Where and from whom do customers buy? What do customers think of their existing suppliers and products/services? What would encourage them to switch?

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

Using the above as a framework will enable you to compile a list of all the necessary points you want to cover and thus define your research aims, though it is not necessarily an exhaustive list of all the questions you might have. Working through each of the above and thinking about what you do know or don't know can act as a prompt for specific questions for which you do not yet have the answers.

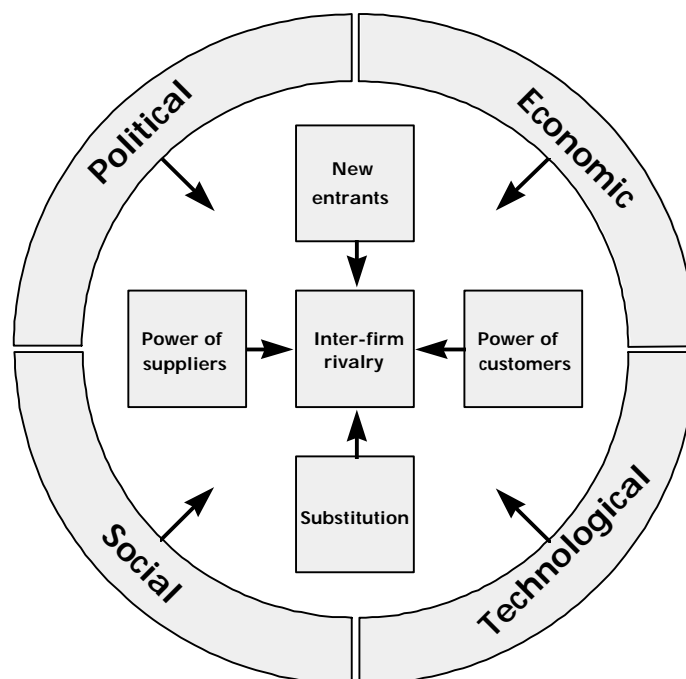
Market forces

As you undertake your research, it may help to bear in mind some of the competitive forces on your business. Professor Michael Porter, of the Harvard Business School, believes that position in the market place is all important and has developed what he calls his five forces model to reflect the basic competitive market forces which impinge on any business. These are:

- ▶ Rivalry among existing businesses competing to supply the same product or service;
- ▶ 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 firm 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.
- ▶ 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. For example, suppliers of manual accounting packages are not only competing against each other, they also face the possibility of customers deciding to use computerised systems.

- ▶ 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 then need to look for substitutes.
- ▶ 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 always 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 - but such luxuries seldom last for long.

These factors, summarised in the middle of the figure below, will effectively determine the likely profitability of any business because they affect costs, prices and investment requirements. Part of the role of market research, then, is to examine these forces and to be able to make informed decisions taking this information into consideration.



Environmental forces

There are also forces - which are inherent in the environment - which will impact on every business in a particular market. These are grouped in the outer circle of the figure. Political forces refers to current and possible future pressures brought about by local, national or international political influences. Economic issues can be closely linked to political issues and can also vary within countries as well as internationally. Social forces can be one of

the most difficult to assess but are often the most influential since most of the market drivers that determine what products and services people want to buy, and why, fall into this category. Technological development trends are not only relevant to directly related industries. For example trends in education based services can be affected by developments in communication (use of TV, radio, etc), computing (prevalence and use of educational software, multimedia, etc), construction (design of educational establishments), psychology (teaching delivery methods), etc.¹

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 continuing gathering of market intelligence should enable you to keep an eye on both.



1. Opportunities & threats

Now it's time for you to do some work. Think about your business. Prepare some notebook pages set out like these.

Threats	
Political	score <input type="text"/>
Economic	score <input type="text"/>
Social	score <input type="text"/>
Technological	score <input type="text"/>

Opportunities	
Political	score <input type="text"/>
Economic	score <input type="text"/>
Social	score <input type="text"/>
Technological	score <input type="text"/>

Threats	
New entrants	score <input type="text"/>
Substitution	score <input type="text"/>
Supplier power	score <input type="text"/>
Customer power	score <input type="text"/>
Inter-firm rivalry	score <input type="text"/>

Opportunities	
New entrants	score <input type="text"/>
Substitution	score <input type="text"/>
Supplier power	score <input type="text"/>
Customer power	score <input type="text"/>
Inter-firm rivalry	score <input type="text"/>

Brainstorm opportunities and threats caused by the environmental (PEST) factors and by Porter's market forces. Do not worry too much at this stage about the accuracy of your list - you will have the opportunity to research and refine it later.

¹ Analysis of these influences, known as a PEST or as a STEP analysis, is covered in more detail in "Planning to Succeed in Business", David Irwin, Pitman, 1995.

Positioning your business

Thinking carefully about the market place and pressures will help you to think about your likely customers.

Who do you see as 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? How will you differentiate your business from your competitors?

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.²

Profiling customers

All businesses need to identify and then target accurately their prospective customer groups. An accurate profile of your customers' needs will help you both to find them and to conduct direct research to show how you can best satisfy their needs at a price they can afford. In addition, promotion activities can then be planned appropriately. This is particularly necessary for small businesses. With limited resources you cannot hope to compete in all available markets. For a small business this either means finding a highly specialised 'niche' in a national or international market, or tailoring a product or service to compete in local markets.

Whatever your business is, you should be specific regarding the segment in which you will operate. You might, for example:

- ▶ offer bespoke computer software to large businesses; or,
- ▶ provide toys and games for children under 12 years old; or,
- ▶ provide an environmentally friendly range of packaging materials for use in the food industry.

A product/market matrix can help: Products or needs are shown in columns and customer groups or segments in rows. Take for example the market for computers. You might conclude, from your market research, that there are three segments - large businesses, small businesses and home users. You might feel that there are a number of needs of each of these groups such as computer hardware, applications software and specially written

² Explained in more detail in "Marketing for the first time", PNE/LiveWIRE, 1996.

Product \ Market	Market		
	Large businesses	Small businesses	Home use
Computer hardware	*	*	*
Applications software	*	*	
Bespoke software	*		

software. You can then set them out in a matrix as shown in the illustration. Not every market requires every product. This is still very simplified of course. The hardware requirements of large businesses will be totally different to those of home users, for example.

What are your customers looking for?

It is important to satisfy the needs of your customers. When asked what his business did, Charles Revson, 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*. This is true of every product or service.

Maslow, the eminent American psychologist, suggested that “all consumers are goal seekers who gratify their needs by purchase and consumption”. He classified consumer 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.

Every product or service is bought to satisfy one or more of these needs. So, for example, as people’s hunger and thirst needs are satisfied, they move up the hierarchy, to satisfy other needs. People buying basic food stuff from a high street, high volume turnover discount store are buying food to live, whereas, people who buy goods from a high quality outlet with a large range of exotic or specialised foods are buying for self gratification or egotistical reasons. Both stores are 'convenient' for their customers’ profile. However, the 'convenience' means something entirely different to each set of customers.

Where are your customers on the ‘needs’ hierarchy and how can your product or service help them to achieve their goals? What do customers think about the kind of products or services being offered? What are their likes and dislikes? What attributes are important to them? What features or promises would be most

likely to make them use your product or service? What benefit would they gain from your product or service?

Understanding your market can also ensure that you are alive to changes in say, technology or customer preferences. Conversely, if you do not understand what you are really providing, you can be overtaken by competitors or by changing buying habits. Look, for example, what happened to the Swiss watch industry. Swiss watches were renowned for being well made, precision, mechanical time pieces. But the manufacturers failed to see what was happening in the electronics industry and they were decimated by the introduction of electronic watches from Japan which could offer a major benefit (accuracy) at an extremely low price. It is only recently that the Swiss have fought back, with companies such as Swatch stealing a march by promoting watches as fashion accessories. What business are they in now?

Whilst it is important to understand your customers' needs, do not be totally constrained by what they tell you. "However well a company meets the articulated needs of current customers, it runs a great risk if it doesn't have a view of the needs customers can't yet articulate, but would love to have satisfied". In other words, you have to make some effort to anticipate what future needs they would like to have satisfied!³

The seller pays for the features but the customer buys the benefits. So the benefits must be more valuable to the customer than the features cost you, the supplier, to deliver.



2. Needs of customers

Refer back to your list of opportunities and threats. Now think about the possible needs of customers - all of which are opportunities - and prepare a product/market matrix. Then describe, as precisely as you can, your expected customers.



Case Study

One client involved in graphic design, for example, has segmented the market as follows:

	A	B	C	D	E	F	G
1995							
1996							
1997							
1998							
1999							
2000							

³ Gary Hamal & C .K. Prahalad, "Competing for the Future", Harvard University Press, 1994.

- A Clients who buy print and don't care about design.
- B Clients who are worried about design but can't afford it so go to "Design and Print" businesses. They look around for the best price and so fail to build up a relationship with a design company. Customers know what they want in advance and the designers simply react to requests.
- C Clients who want to use a design company for more than simple print but constantly say they're too expensive - always screwing the price down.
- D Clients who appreciate the importance of having a good image and want to build up a relationship with a design company to implement this. This is still quite reactive work; the customers know what they want at the beginning of the year and discuss it with the designers but it remains primarily the customers' decisions and ideas. There is still a concern about price.
- E Clients who are not just getting a supplier to do a specific job. They know vaguely what they need and want the problem taken away. There is more control by the designer over the work to be done for them. Customers want to build a long term relationship.
- F Clients who take on board proactive ideas from the designers. They know how they want to appear but will wait until ideas are suggested to them to decide how to get their message across.
- G Clients who are willing to let a design company control their budget. They discuss their marketing plan with the designers who then help implement their marketing strategy over the year.

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 (or, possibly, to convince yourself to look at a different idea in a different market!).

In a nutshell, market research is observation, experimentation and asking questions - nothing else.

Information about your potential customers and your competition can be collected in two ways: using secondary information sources, or carrying out primary research.

The term secondary research refers to research which has been conducted by other parties and to other published information. There are numerous published sources that can provide

information related to your business idea.⁴ Your local library, Business Link or enterprise agency can help you to access background information quickly and cheaply and assist you in deciding what, if any, further in-depth research is needed.

Primary research involves talking to and observing your customers, potential customers and others' customers. This kind of research provides information that is specific to you, and is concerned with the impact of your business on the market, as well as that of your direct competitors. For existing businesses, this will involve talking to customers, both actual and potential, and looking at past performance on indicators such as sales volume. For new businesses, this kind of research will require an assessment of likely demand, by dealing with potential customers to find out the level of interest.

Primary research should always be validated by secondary research to ensure accuracy and honesty of respondents. Good primary research also says something about you and your approach to business as it is difficult and often time consuming if it lacks discipline.

It is essential to research the market for any product or service very carefully. If others are already offering something similar, it is no guarantee that you will be successful too. Conversely, gaps may exist because of lack of demand rather than lack of supply. Market research should be undertaken before you launch a new product or service. Assumptions about the market are exactly that...assumptions. They must be tested carefully.

Planning your research

The aim of market research is to assist you to make informed business decisions. Market research can provide you with information covering, for instance:

- ▶ Recent and forecasted trends.
- ▶ The potential size of your market.
- ▶ Level of demand for your product or service.
- ▶ Customer characteristics.

Before diving into your market research, it is a good idea to take some time to think about what you need to know. The amount of information available is vast, and it is all too easy to get bogged down or diverted from your purpose.

⁴ A good starting point can be a Business Opportunity Profile, published by PNE and widely available through Business Links, enterprise agencies, the High Street Banks and *LiveWIRE*.

Ask yourself these three key questions, which cover the main things you will need to know.

- ▶ Customers - can I interest them in my product or service, can I communicate with them, and will they pay me enough to be profitable?
- ▶ Competitors - will I be able to compete with other businesses in the marketplace?
- ▶ Operations - do I have the ability and resources to meet the needs of my customers?

Examples of 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?

What methods/equipment do they use?

Are they any good at it and why?

▶ **Operations:**

How much will I charge?

What level of funding will I need?

Where can I get funding?

What specialist skills are needed?

What equipment is necessary?

What specialist regulations will I need to meet?

How many am I likely to sell?



3. Planning your market research

What do you need to learn about your market? Before you start researching it makes sense to plan. Some market research companies write their report - full of gaps of course - before they do their research. This helps them to concentrate their minds on what information they hope to derive from their research.

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, expanding, or even one content with just surviving.

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. If you were in the home improvements market your calculations may run as follows: If, on average, people spend £110 per year on home improvements products, and if the catchment population for a retail outlet is 25,000 people, the total market potential for that area is $(£110 \times 25,000) = £2.75m$. Using the same data for previous years, you can work out how fast the market is expanding or contracting.

You should also 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. Combining this information with your sales figures over the last few years should help to give you an indication of how the market may develop in the future. Is the market seasonal? Will demand be the same throughout the year, or will there be peaks and troughs? Are other products or services complementary or competitive? What might be the impact of reductions or increases in their sales?

If you know in advance that the market is seasonal, you can better prepare for the troughs: Do you concentrate some advertising here to raise the troughs? Can this time be used for building up stock or finding new customers for later on?

If you have identified trends - say, rising sales - are they repeated in all segments of the market or are different parts of the market reacting in different ways? For example, increasing disposable income may encourage more people to spend more in the shops but there may be a similar decline amongst market traders.

Where to start

A considerable amount of information can be found in your nearest reference library. This will include government reports and statistics, market research reports, technical press, business directories (local and national), press articles, telephone directories, company brochures, local ward profiles, and the electoral register.

Whilst you need to ensure it is current and that the compilers were not biased, information from these sources includes:

- ▶ **Market Information:** Size, market location, types of product/service, overall market, main market trends, pricing structures.
- ▶ **Competition:** How many competitors locally and nationally, turnover product group, services, branches? Are there alternative products with similar benefits?
- ▶ **Customers:** Customer type for various products/services, spending habits, customer preferences.
- ▶ **Future trends:** Influenced by forecast population changes, technological developments, changing customer trends, political and economic forecasts, etc.

Trade magazines and newspapers	Trade magazines published in your chosen market can be very useful for gaining a general impression of current market activity - competitors, current issues and opinions, active agents and distributors, ancillary services. Special features can sometimes include relevant market statistics.
Public reference libraries	Typically the main source of information. Reference libraries in larger towns and cities store a wealth of information on a vast range of topics: trade directories, commercially produced market reports, published commercial and government statistics, newspaper and magazine archives, copies of UK and European legislation, reference books and catalogues, copies of annual reports of quoted companies, etc. Access to this information is usually free though some libraries now charge for librarian assisted searches. Many larger libraries are also able to access online computer information services and/or computerised commercial databases, but may charge for these services.
Trade associations	Many trade associations maintain their own reference libraries. Being more geared towards membership interests, these tend to be less extensive than public libraries but can often hold material otherwise unavailable elsewhere. Trade associations often conduct their own research into UK and international markets and will make extracts of the information available to members. Charging policies vary from association to association.
Banks	Banks are an obvious source of financially related data such as exchange rate forecasts. Not so commonly known is that the major banks have departments that are involved in researching world markets and economic trends and assessing trading risk. Contact your bank manager for details of the full range of services your bank may be able to offer.
Business Links	Business Links were developed to serve as a 'first port of call' for identifying sources of business help and assistance. Worth contacting to find out the full range of help and assistance available in your area as well as signposting to additional sources of specific information.
Euro Information Centres	Many parts of the UK now have a local information centre which can provide advice and information on European legislation and directives, EU funding schemes and sources, plus general commercial information about member countries of the EU. Contact your Business Link or Local Authority to find out if an EIC exists in your area.

Usually assistance will be available in tracking down appropriate information. Typical sources, however, are shown in the next table.

Getting started	Use library directories, indices and abstracts to identify a suitable report. Publications include: the International Directory of Published Market Research, Marketsearch, Index to Business Reports, Marketing Surveys Index, Reports Index, Findex. The easiest option is to identify the report you require and then to ask. If the library does not have it, they may be able to get it for you through an inter-library loan.
Market research reports	A number of specialist market research organisations publish detailed reports. Look out for Mintel (Market Intelligence, Retail Intelligence, Leisure Intelligence and others), ICC Keynotes, Jordans Surveys, Euromonitor and Market Assessment Reports. Frost and Sullivan publish Industrial Market research Reports. The Economist Intelligence Unit publishes Retail Business.
Newspaper indices	See, for example, Extel Cards, McCarthy Industry Cards, Clover Newspaper Index and British Humanities Index.
Media advertising sources	See British Rate and Data (BRAD), Media Expenditure Analysis Ltd (MEAL).
General directories	Kompass Register, Kelly's Manufacturers and Merchant's Directory and Yellow Pages. Business Monitors, Overseas Trade Statistics, Family Expenditure Survey, General Household Survey and National Food Survey.
Statistical reports	A very wide range of statistical information is available. Try Business Monitors, Overseas Trade Statistics, Family Expenditure Survey, General Household Survey and National Food Survey.
Other	If you have a computer and modem, direct connection to online computer database and information services such as IQuest on CompuServe and Kompass Online. This can have the advantage of being able to obtain the most up-to-date information. However, it can be difficult to locate relevant online services and they can work out quite expensive to use.

Making use of these sources of existing information can save both time and money, but it is important to check just how up-to-date the information is. Some types of printed material can become out of date relatively quickly. Furthermore, it is very unlikely that desk research will enable you to obtain all the information you need. At best you will obtain a very good impression of what is generally happening in the market and get a good feel for the overall market trends. At worst you may find there is very little information with which to work.



4. Secondary research

Now it's your turn to undertake some research. Start with secondary research. Go to the library or obtain published information from other sources. How much can you 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.

Your own market research

Published information 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.

Location

Where your business is located requires careful consideration. There are regional influences to consider as a bigger issue, and a finer issue on the subject of physical location is whether or not you are in a place where your potential customers habitually buy. For retail outlets, often a few yards can make the difference between success and failure depending on the amount of passing trade. The *footfall*, that is, the amount of people passing a particular place within a given period of time is an important consideration.

▶ **Timing**

Timing is important. Research must assess how fashionable a product or service is at one particular moment in time and also where a particular product is within its 'lifespan'. All products are considered to have a lifespan and a major business skill is knowing just where on the 'lifespan curve' the launch is taking place. The launch must take place within the bottom two-thirds of the incline in order to derive the maximum benefit from when the product actually 'peaks'.

▶ **Customers**

The most important form of research is a survey of your potential customers. The aim is to find out exactly what they want. The results of such a survey will be the most crucial piece of evidence that you will present. It is the only way to find out if there are enough people out there who will pay for your product/service. You may also learn how to make your product/service even more attractive to them, and why they would buy from you.

There are three basic methods you can use to find out about your customers.

- ▶ Personal Survey
- ▶ Telephone Survey
- ▶ Postal Survey

Survey methods

Personal Survey	
PROS Greater flexibility and control Opportunity to clarify if misunderstandings arise Can ask supplementary questions High response rate Can watch body language as well as verbal responses	CONS Time consuming Expensive Respondents have little time to think

Telephone Survey	
PROS More flexibility and higher response than post Reach people who won't give personal interview Fast Convenient when calls are far apart geographically	CONS Interviews must be short Respondents have little time to think May give inaccurate response Costly Only reach people with telephones Lack of personal rapport
Postal Survey	
PROS Respondents have time to think May express true feelings and be more objective Useful when respondents are difficult to contact	CONS Notoriously low response No flexibility to clarify answers Limited information produced Response may not represent sample mailed Time consuming Expensive

Questions to ask in a survey

Having identified the consumer and method of carrying out the survey, you must decide what to ask.

- ▶ What do you want to know?
- ▶ Build a question around it; for example, where will I advertise?

Q. When you're looking for a plumber do you look in

- Yellow Pages?
- regional newspaper?
- free paper?

It is useful to design a questionnaire because this ensures that interviews remain brief, and that the information is consistent. In addition, it provides a simple and convenient means of logging the answers, and a standardised basis for assessing the results.

The type of information sought in a survey will vary according to the type of product/service involved, but there are some common requirements:

- ▶ What is the product or service used for?
- ▶ How many are bought each year?
- ▶ Which brands have been tried?
- ▶ Which brand has been bought most often?
- ▶ Which attributes are most important in the decision to purchase this brand?
- ▶ Which of the product's attributes would be particularly important to the consumer?

DO's and DON'Ts for good questionnaires

DO's	DON'Ts
<p><i>Do</i> define the target audience, eg it is not possible to check the 16-25 year old fashion market by surveying pensioners!</p>	<p><i>Don't</i> ask questions the respondent probably cannot answer, eg "What is your husband's favourite beer?".</p>
<p><i>Do</i> keep the wording as SIMPLE as possible, eg do not ask passers-by about "advertising copy".</p>	<p>Keep the questions to respondent's personal experience.</p>
<p><i>Do</i> be PRECISE, eg not "Do you watch TV regularly?" but "Do you watch TV every day?".</p>	<p><i>Don't</i> ask LEADING questions, which imply an answer, eg "Do you think the capacity of the fridge is too small?".</p>
<p><i>Do</i> put EASY and INTERESTING questions first.</p>	<p><i>Don't</i> use EMOTIVE words, eg "Do you buy cheap brands?" ("Low Cost" is preferable).</p>
<p><i>Do</i> have a LOGICAL order.</p>	<p><i>Don't</i> ask DOUBLE BARRELLED questions, eg "Do you like the colour and design of this dress?".</p>
<p><i>Do</i> keep CONFIDENTIAL or PERSONAL matters and COMPLEX questions towards the end.</p>	<p><i>Don't</i> touch on certain topics (or else phrase the question carefully), eg "Tell me your exact income" ("No" would be the answer). Instead, give a choice of income bands.</p>
<p><i>Do</i> try to make the FIRST question fix the factor under review - "Do you own a computer?", "Do you drink lager?".</p>	<p><i>Don't</i> ask questions which involve loss of status for the respondent, eg "Can you afford a car?".</p>
<p><i>Do</i> ask questions in the past tense, that way you are more likely to get a truthful answer.</p>	<p><i>Don't</i> ask more than three or four multiple choice questions. Your respondent's memory is not that good.</p>
<p><i>Do</i> a mock analysis of your questionnaire before conducting your research.</p>	

Have a maximum of six or seven questions with no more than four choices of answer. Four choices stops people from opting for the central response.

Test out your questionnaire

Always conduct a sample analysis to make sure you get the information you need before conducting your full research. Try the questionnaire on a few people to check that they understand the questions and that the answers you get are meaningful. If your "test" respondents keep asking you to explain the question or repeat it, you know that the question needs to be rephrased.

Sample techniques

Don't be tempted just to survey the pedestrians you like the look of, or seem easiest to collar! This will prejudice your sample and impair your results. Stick to a rigorous system, eg by approaching every 7th or 10th person as you stand waiting, or visit homes, or telephone a sample taken from the phone book. You will need to sample a significant number of people to achieve usable results - at least 60 and ideally closer to 200. See your marketplace as it is

and not how you desperately would like it to be - the only person you're kidding is yourself.

Interviews

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 could be made.

As well as providing information to increase your understanding of the market, the process of asking your customers and suppliers will promote the business as being concerned with customer and supplier care.

If you are going to talk to customers formally it is important to use a standard questionnaire - so that you ensure that you ask everyone all the questions to which you are seeking answers. If people offer more information than simply the answer to the question, write it down. You will probably find that customers are very willing to help you by answering your questions - and some of the most useful feedback often comes in asides or the extensions to answers.

You do not need to meet people face to face to conduct personal interviews. These can be done over the telephone. Once you are in business you may choose to sub-contract telephone market research. A 10 hour run costs around £350 and will complete around 100 fairly simple interviews.

Focus groups

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 would buy it, etc. It is important to collect together people whose opinions you will value - this means assembling people who match your customer profile. Their feedback will then provide you with information that can be considered typical of this target group. For existing businesses, the group could consist of existing customers or suppliers.

Bringing together a group of customers in a focus group can provide very valuable information, but you do need to ask the right questions. Even informal conversations, for example, with a small group of housewives over coffee, can often give as much information and as many leads to a small business as an expensive and formal survey. These informal sessions will also tell you the language - vocabulary - which customers use when talking about your product or service. Focus groups can be a useful follow up to a more formal questionnaire.

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

Plan your questions:

- ▶ Use open questions;
- ▶ Listen actively;
- ▶ Clarify and summarise to check understanding.



5. Primary research

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.



Competitor scans

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. As mentioned earlier, trade journals are a useful source of information, with articles on your competitors, and advertisements. If, in your market research with potential customers, you talk to someone who is at present a customer of a competitor, they may be willing to tell you about the service they receive.

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 - particularly valuable if you are involved in manufacturing something that is not too expensive. Whether you admit to being a prospective or an actual competitor is up to you!



6. Competitor scans

Learn all you can about your competitors. Use published sources. Obtain their annual reports. Ask survey or focus group questions. Analyse and describe their strengths and weaknesses.

Test marketing

The best way of finding out whether your product or service will sell is to carry out trial runs - known as test marketing. Retailers often carry out test marketing - they will try a new product in a few stores, and if they sell well, then other stores will also stock it, or they will take more stock in their next order. However, if the product fails to sell, the amount of money wasted is limited - much more than if all stores had taken the stock, or a large order had been placed originally.

In manufacturing, prototypes can be made up and shown to prospective clients - they will be reluctant to place advance orders without this. Or a company providing services may wish to begin a new service on a small scale before integrating it into the company brochures or investing in it.

Analysing information

Market research analysis is the way in which a business uses the collected data to draw conclusions about potential customers and even to project financial outcomes. It is not an exact science and will probably take a different form with every individual business. The objectives, however, are to:

- ▶ determine the likely size of the market; and,
- ▶ estimate the share that you might be able to achieve; that is, to forecast likely sales.

Remember that the aim of any market research exercise is to give you information and answers on specific matters related to your business. You must ensure that your analysis gives you this information. Use and take note carefully of the results which your questionnaire provides. Remember that there is no point in pursuing a business idea if your research has shown that there will be little demand for it.

Once you've gathered your data, you need to analyse it, organise it and make sense of it so that you can retain the important elements, process them and then make those all important

decisions. You may have to take particular care not to misinterpret what you learn from your research. Draw conclusions from it to “shape” your business. Keep an open mind. Be honest. The information you acquire is for you - not for the bank.

Do not allow your preconceptions to cloud the message from focus groups - or any other form of market research. A well known jeans company some years ago was convinced that it had spotted a gap in the market and held a series of focus groups. The clear message coming from the groups was that there was indeed a gap, but that the strong brand name of the company was not associated with that gap. The company ignored the message, launched a new product - and discovered a failure on its hands!



7. Analysing your data

When analysing what you have learnt, attempt to identify any external factors which might affect you in implementing your business plans. What are the trends in the market? What may affect those trends (for example, technological changes or political changes or economic changes)? What will be the reaction of your competitors to a new entrant in the market place? Describe the opportunities and the threats.

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. The previous chapter described how to use market statistics to 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 the product or service, and image and positioning of the company will all influence market share.

When predicting likely sales for a new business, then, 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. Are you planning additional marketing? What is the likely effect of that marketing? 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 (eg UK, Europe, Far East) then it may be helpful to have a sales budget for each area. You should also aim to prepare your sales budget on a monthly (or quarterly) basis.



8. Forecast your sales

Now have a stab at forecasting your expected sales for your next year in business. Do it on a cumulative basis and express your forecast both by volume and value.

Sales platform

Forecasting sales is very difficult, at least until you have built up some historical data. It might be appropriate, therefore, to make some test calls to discover the rate of conversion of calls into sales. Then you can calculate how many calls will be needed every week or every month to achieve the sales required. Consider whether that number of calls is manageable. Does it leave enough time to do the work?

Strengths and weaknesses

If you are already familiar with the concept of a SWOT analysis (strengths, weaknesses, opportunities and threats) it will come as no surprise to find that, as the summary of your market environment research was focused on opportunities and threats, the summary of your research into market structure and activity is focused on strengths and weaknesses. This is principally because success in any market is being able to do a better job of satisfying the target customer group and an assessment of strengths and weaknesses is mainly concerned with identifying what you are good at and what you are not so good at.

There are two points of view you need to consider. Firstly, from your competitor research you will be able to develop your own view of how well you compare with the competition. Your assessment will include aspects such as production efficiency, technological capabilities, financial strength, distribution capabilities, etc. These are internal factors related to how well your business is able to perform relative to your competitors. The second viewpoint is that of the customers. They are unlikely to be particularly concerned about whether your production process is more efficient than a competitor's, or whether you have more up-to-date equipment. They are much more likely to base their view of your strengths and weaknesses on factors such as speed of response, standards of customer care, product quality issues and perceived value for money - the issues that matter to them.

Weaknesses - customer view	
Item	Importance score

Strengths - customer view	
Item	Importance score

Weaknesses - internal factors	
Item	Importance score

Strengths - internal factors	
Item	Importance score

Assessing your strengths and weaknesses from both points of view helps by encouraging you to think in terms of what your customers really want and, consequently, what resources you will need to be able to do that better job of satisfying those requirements.



9. Strengths & weaknesses

Brainstorm your strengths and weaknesses and those of any colleagues with whom you work. Think about the resources that you will have available.



Conclusion

Having undertaken and completed your market research you will now be in a position to use the information to formulate the plans for 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 changed; you are only as good as your current knowledge of the market place.

Useful addresses

- ▶ Mintel International Group Ltd, 18-19 Long Lane, London EC1A 9HE, Tel: (0171) 606 6000/4533
- ▶ Key Note Publications Limited, Field House, 72 Oldfield Road, Hampton, Middlesex, TW12 2HQ, Tel: (0181) 783 0755
- ▶ Euromonitor, 60-61 Briton Street, London EC1M 5NA, Tel: (0171) 251 8024
- ▶ Jordans Surveys, Jordan and Sons Ltd, 21 St Thomas Street, Bristol, BS1 6JS, Tel: (0117) 923 0600
- ▶ Industrial Market Research Reports, Frost and Sullivan Ltd, Sullivan House, 4 Grosvener Gardens, London SW1W 0DH, Tel: (0171) 730 3438
- ▶ MSI Database Reports, Marketing Strategies for Industry (UK) Ltd, Osprey House, 10 Little Courtland Street, London W1N 6LX, Tel:(0171) 637 8575
- ▶ Market Assessment Reports, Market Assessment Publications Ltd, The BLA Group, 4 Crinan Street, London N1 9SQ, Tel:(0171) 278 9517
- ▶ Retail Business, The Economist Intelligence Unit, 15 Regent Street, London SW1 4LRTel: (0171) 493 6711
- ▶ Market Research Society, 15 Northburgh Street, London EC1V 0AH, Tel: (0171) 490 4911

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Assignments, business plans and NVQs

Have you completed the assignments in this book? We hope you have, because they each provide information for your business plan. Thorough market research is essential to the success of any business and will inspire confidence in anyone you may approach for funding. In addition, the assignments provide you with evidence for the NVQ3 Business Planning for Owner Managers (OM3) as shown in the table below. Many banks are now recognising the importance of accredited training and offering reduced commission and reduced loan rates to people who achieve OM3.

Assignment	Business plan	OM3 element	Tick when completed
1		1.2(6), 1.3(4), 1.3(5), 4.2(2)	
2	✓	4.1(2), 4.2(1)	
3	✓	4.1(3)	
4	✓	1.3(1), 1.3(2), 1.3(5), 4.1(1), 4.2(1)	
5	✓	1.3(1), 1.3(2), 1.3(4), 4.2(1)	
6	✓	1.3(4)	
7	✓	1.2(6)	
8	✓	4.2(5), 4.3(5)	
9		1.1(6), 1.2(2)	

Completing the assignments will provide considerable evidence for elements of the NVQ as indicated above. It is possible that your assessor may require further evidence in support.

The authors



Project North East is an enterprise and economic development agency whose purpose is to develop and manage innovative, quality services which offer individuals and organisations the opportunity to realise their potential primarily through the creation and development of business enterprises. Project North East has been writing and running training programmes for people starting in business since 1985 and has been providing further assistance through intensive counselling and through the use of assignments designed to help clients prepare business plans which demonstrate viability and determination.



LiveWIRE, managed by Project North East and sponsored by Shell U.K. Limited, is the national organisation which encourages young people to consider starting their own business as a realistic option and, for those people who wish to pursue that option, it provides support and assistance from start up through to early growth. In all the services it provides, *LiveWIRE* stresses the importance of regular planning, whether formally or informally, as a major requirement for success in running a business.



Live **WIRE**™