
Market Research

WHY DO MARKET RESEARCH?

Small businesses need to know as much about their market environments as major corporations do. As a small business owner, it's just as vital for you to understand what your customers want, what your competition is doing, and what exciting new opportunities await you as it is for the CEO of a Fortune 500 company. The main difference is that a Fortune 500 company has more resources to find out everything it wants to know about its customers.

According to Philip Kotler, in his book *Marketing Management*, "Coke knows that we put 3.2 ice cubes in a glass, see 69 of its commercials every year, and prefer cans that pop out of vending machines at a temperature of 35 degrees . . . that 51 percent of all males put their left pants leg on first, whereas 65 percent of women start with the right leg. Procter & Gamble once conducted a study to find out whether most of us fold or crumple our toilet paper. . . ."

Luckily, your marketing efforts won't have to be quite so extensive (Figure 1). And if by some fluke you do need to know more about ice cubes or toilet paper, you can often do research to find statistics from previous studies like these, so you don't have to duplicate the effort. With the investment of some time and care on your part, it's very possible to uncover the habits of your customers, the size of your market, and the nature of your competitors without spending a dime.

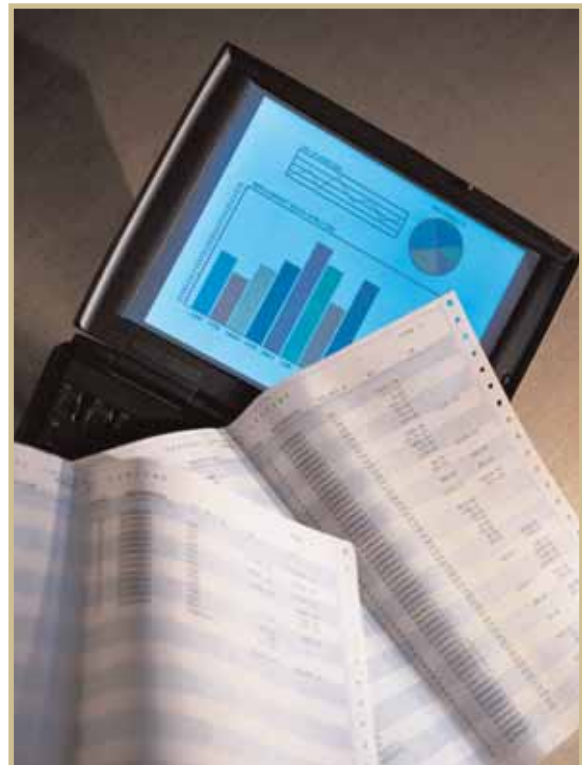


FIGURE 1—Your research won't have to be nearly as complex as that of large corporations. Still, you need to know your potential customers and your competition.

Where to Start

Your first marketing priority is to find out whether you can sell your product or services. If there isn't a market for your business, no amount of clever promotion and enthusiastic funding will help. And if there is, you still have to regularly update the information in order to adjust to the market as necessary to stay profitable.

One place to begin is to take a look at your competition. If there are several other businesses already selling your product or service, you'll have to closely study your target market, then focus your business to fill gaps left by your competitors. On the other hand, if there's no competition in your field, it may mean the market is wide open, especially if you're offering something new—or it's possible that there's simply no market for your product or service in your area. Your initial research should uncover that information.

You may also want to look into industry regulations before you commit to a particular business. Businesses dealing with safety issues associated with serving the public, dangerous work, or hazardous materials will be responsible for meeting regulations and keeping up with frequent changes. Complying with the requirements involves both time and money, which may affect your bottom line if you can't pass the costs on to the consumer. Finding out about these regulations will be part of your research.

The market research you glean from both *primary* and *secondary research* sources will not only provide you with important information, it's also likely to stimulate new ideas for positioning yourself in the market, coming up with additional products and services, changing your focus, or approaching your customers from a different perspective. It can give you a solid foundation from which to strategize your short- and long-term plans and goals. It can improve your efficiency in conveying your pitch to your target market and help determine who that market is and what it wants (Figure 2).

RESEARCH SOURCES

American Marketing Association	Cyber mentors
Chamber of commerce	City hall recorder's office
Computerized search engines	Business contacts
Distributors of similar products	Government databases
Industry trade shows	Interviews with competitors
Local business organizations	Trade associations
Public relations agencies in your field	Local, state, and federal government agencies

FIGURE 2—As you begin your market research, there are many sources you can turn to for information, both general and specific.

Research and Demographics

Whether you hire someone to do your market research for you or you do it yourself, there are terms you'll want to be familiar with. Understanding the types of research and the groups of people represented by statistical information will go a long way in helping you make decisions about your business.

Primary research. Primary research provides firsthand information generated from surveys, studies, questionnaires, interviews, and other methods of gathering original data. It may be nothing more than interviewing a cross-section of elementary school students about what kind of music they listen to, or it could be extremely detailed surveys of 1,000 potential customers. It might even include an extensive series of contacts with government regulations offices, the Small Business Administration (SBA), product suppliers and vendors, and the local chamber of commerce. But regardless of its scope, the research is organized or carried out by or for you and designed to provide information needed for the specific project you're working on (Figure 3).

Primary research: Firsthand information, usually obtained through customer surveys, designed to reveal specific information related to current marketing decisions.

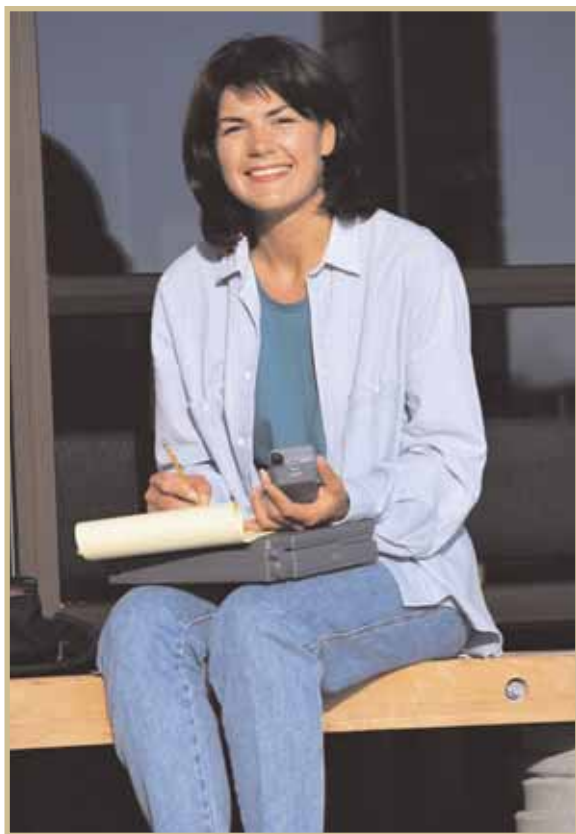


FIGURE 3—Primary research is original data collected specifically for your project. It may include surveys of potential customers or correspondence with vendors, government representatives, or SBA staff.

To make your research useful, you must be very careful about how you gather information, or the results could be misleading or inconclusive. Much depends on your approach, especially in the wording of customer survey questions. If you want clear, conclusive evidence of what people want, you must learn to ask the right questions and ask them in a way that won't sway the results. Always make your questions as brief and specific as possible. You do yourself a disservice by slanting the questions in any way.

For example, *multilevel marketing* (MLM) businesses, sometimes called pyramid schemes, depend on attracting a great many distributors in order to succeed. The distributors make money from sales and from recruiting more distributors (although commissions for recruiting are illegal in many states).

For his MLM business idea, Joe Fillmore ran a series of ads like this: "Would you like to make \$5,000–\$10,000 a month in your spare time?" Few people would answer "no" to this question. But if Joe were genuinely trying to discover how many people would knowingly participate in an MLM business, he would have worded his ad differently. He might simply have asked, "Would you like to sell vitamin supplements on commission in your spare time?" The results of the two approaches would likely be worlds apart.

Before you begin your research, it's also important to think carefully about the goals and boundaries of your survey. How many positive answers will give your business the go-ahead? How many negative answers will make you move in another direction?

Suppose Joe Fillmore did a survey before making his decision on whether he should start an MLM business selling vitamin supplements. Of 100 surveys, these were his results, the numbers representing “yes” answers:

- Take supplements daily 61
- Would switch to a better brand 73
- Would like to earn extra income 27
- Have knowledge of supplements 20
- Would sell supplements to friends 25
- Would consider an MLM business 18
- Can devote 15 hours a week to the job 15

Thinking about the results beforehand helps with the design of the survey itself and helps make better use of the results. When Joe’s results showed that 15–18 percent of those surveyed would be interested in an MLM business and/or have 15 hours a week to invest, he had to decide if that was enough. Since this survey indicated only people’s initial interest, he then had to calculate how many long-term participants it was likely to attract per hundred people, and whether it was sufficient to develop the business.

Primary research can be expensive and time consuming, but it may be the only way to get the information you need. Many people choose to invest in professional market research because the information is vital to their business plan. If you have experience in research methods or otherwise have reason to be confident in your ability to conduct professional, objective research on your own, do it. The results of your own efforts are likely to be superior to the general information available from secondary sources.

A middle ground between doing everything yourself and hiring a market research firm is to look into having a college business or marketing class conduct individual interviews, surveys, or *focus groups* (informal discussions with groups of potential customers). If you call a college or university business or marketing department, someone there can put you in touch with a faculty member who may be able to help you.

Secondary research:
The collection of data gathered from previous studies and applied to the project at hand.

Secondary research. Secondary research is data you've accumulated from other sources. When you look up statistical surveys at the library or run a comprehensive article search online, the information you gather is secondary research. Other people have done the studies or interviews for purposes of their own. You apply the results to your business. If you can find secondary sources that fulfill your need for market research, using them can save you much time and money (Figure 4).

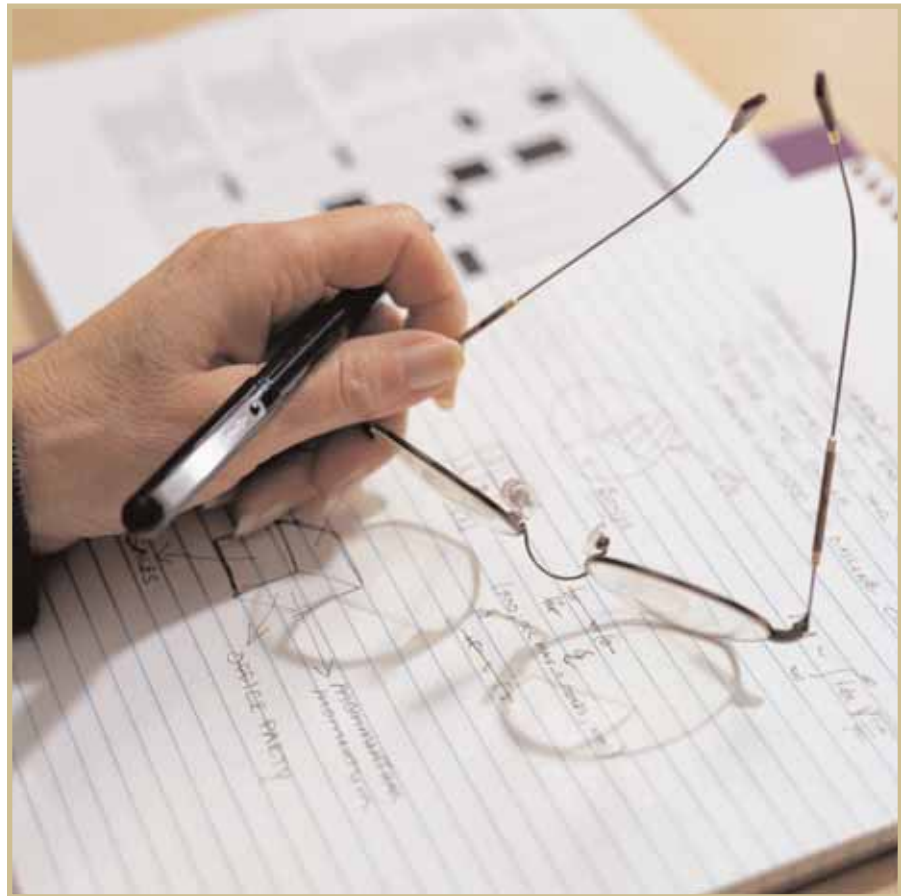


FIGURE 4—Information you gather from the Internet or the library, or research done for someone else's purposes, is secondary research.

Some information is necessarily secondary research, such as national sales figures, industry trends, the stock prices of your competition, their market share, the number of people in a specific target market, or extensive data gathered by industry experts or government agencies. This general information can be very useful for spotting trends, checking on your competition, studying statistics, or investigating certain aspects of your business.

Suppose your small town has no public transportation, so you think it might be a good opportunity to start a taxi business. There's presently no taxi business there. When you look into statistical information on your area, you discover that nearly every household has at least one car. Further research reveals that local agencies serving elderly and disabled people provide them with transportation for shopping and medical appointments. You can stop there. Your quick, basic research shows that there's probably no market for a taxi business in your area (and that's why there's no competition!).

Depending on the type of research you need, however, secondary sources may not offer the reliability that primary research can. First, they're not specific to your marketing plan, and they may be too general to give you the focus you need. Second, you must take care that they're up to date and that economic or demographic changes haven't affected their accuracy. When you do come across information that seems especially useful, it's up to you to make sure it comes from a dependable source.

It's also advisable to be careful how you interpret and apply the information. You obviously can't use the results of a market study of automobile sales done in Los Angeles for a business in New York, and you can't apply information about clothing preferences in Florida by studying trends in Minnesota. This is where *demographics* come in.

Using demographics. Whether your business is product or service based, whether it's a storefront or a moving van, a doctor's office or a vending machine, you have to know your market. Your market research can help confirm your target market in terms of age, income level, education level, sex, ethnic background, geographic area, occupation, and other specific data that help determine what people buy. These statistical characteristics are known as *demographics* (Figure 5).

Demographics: Statistical characteristics of the human population applied for marketing purposes.



FIGURE 5—Demographics refers to groups identified by age, income, occupation, ethnic background, number of family members, and other statistics useful for marketing.

Your product or service will determine the demographic group or groups for whom your marketing will be intended. For instance, if you're selling video games, you know very well who your primary target is. Your decor, your advertising, your location, and your hours will all be structured to appeal to teens and young adults, males more than females, who have money to spend on entertainment. However, your market research might show that each year in November and December there's an upsurge in sales among middle-aged parents in several income categories, or that preteen children are a larger part of the market than you thought. Or it might indicate an interest in used games, or in trading or renting rather than buying. It might disclose that in your geographic area, most people buy their games online.

It's vital that you do enough market research to know not only what and how your target customers buy, but *why* they buy as they do. In the examples above, it's pretty obvious that parents buy video games as gifts for

their children at the holidays. But why were more people buying online? Was it because they preferred to order on the Internet to get a better variety or price, or because there wasn't a good retail store in your area? That information could make a huge difference in your approach to setting up your business.



Self-Check 1

At the end of each section of *Market Research*, you'll be asked to check your understanding of what you've just read by completing a "Self-Check." Writing the answers to these questions will help you review what you've studied so far. Please complete *Self-Check 1* now.

Indicate whether the following statements are True or False.

- _____ 1. Market research can help you strategize your long- and short-term goals.
- _____ 2. Primary research is by nature more accurate than secondary research.
- _____ 3. Your first marketing priority is finding a good advertising agency.
- _____ 4. The grouping of people for marketing purposes is called demographics.
- _____ 5. As long as you find out what people want, there's no need to know the reasons for their choices.

Check your answers with those on page 35.
