7 Step Start-up - Step 3

Researching your market

When you are setting up a business, researching your potential market is essential. Although it is time consuming to acquire, a thorough and reasoned knowledge of the market is invaluable to the future of your business.

With a true picture of your potential customer base, you can honestly assess the viability of your venture. Resist the temptation to rush ahead. Carry out thorough research and analyse your results - it can be the difference between make and break. This briefing explains:

1. How to decide what you need to know.
2. How to exploit existing information sources.
3. How to conduct market research.
4. How to analyse and act on the results.

1 What you need to know

1.1 **Identify** potential customers.

It is likely that you have an instinctive idea of who your customers could be.

- If you wanted to start a retail business selling children's hair accessories, the main targets would be mums or young girls.
- If you were setting up an ironing service, single business people or busy parents would be two possible market sectors.

If you do not have a clear idea of the market for your business, the more broad-ranging your research will have to be in order to find one. A potential business without a defined customer base is a failure waiting to happen.

1.2 You need to find out the **five Ws** - who, what, when, where, why - as well as how.

1.3 **Who** your potential customers are.

- If you will be selling to individuals, you need to know their sex, age, marital status, occupation, income and lifestyle.
- If you will be selling to businesses, you need to know their size, industry type, product-buying patterns and service requirements.

  You also need to know what characteristics are common to all your customers and who makes or influences the buying decision.

1.4 **What** they buy and in what quantities.

- A printing firm should understand if its customer base will want a thousand postcards or a million brochures.
- A successful sandwich shop will predict its top-selling sandwiches and how many of each they expect to sell each day.

1.5 **When** they will buy.

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- Customers of a toy manufacturer will buy more towards the end of the year so that they are fully stocked for the pre-Christmas trading period.
- A minicab firm will expect more business on Saturday evening than Monday evening.

1.6 **Where** customers prefer to buy.

- A bookseller will know that while many customers like visiting a shop, some also buy books through the Internet.
- Do a hairdresser's customers want to come to the salon, or would they rather have their hair done at home?

You also need to make a decision on a specific location - in terms of access, or passing trade or cost, for instance.

1.7 **Why** they will buy your product or service.

Every start-up has to know why customers will buy from them and not the competition. This will become your unique selling proposition.

- Your research should test how effective this is.

  If you are starting a sandwich shop, are you sure your potential customers will prefer your sandwiches to those from supermarkets?

  If you are going to manufacture jewellery, do retail jewellers think the designs will sell to their customers?

1.8 **How** customers buy.

You have to understand the needs of your customers and the position of the market you are going into.

- You also need to know about the health of the business-property sector - if the economy were shrinking and businesses were giving up property, you may find your customers have no need to buy from you.

The Equality Act 2006 has introduced a number of measures that make it illegal to discriminate on a number of grounds in the provision of goods, facilities and services. Make sure that you do not inadvertently discriminate against any potential and actual customers in the provision of your goods or services.

Common mistakes

- Failing to do any market research.
- Carrying out market research once and not finding out how things have changed.
- Being unclear about what you are trying to find out or asking questions in the wrong way - and getting the wrong information.

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- Cutting costs by using small samples or just asking a couple of friends - and getting misleading results.

- Interpreting statistical information wrongly and failing to see when one or two opinions distort the overall picture.

- Analysing information too optimistically - and then kidding yourself it supports your preconceptions.

2 Your own research

The research technique you use will depend on whether you need numerical information about people's attitudes or a deep understanding of their views and motivation.

2.1 **Quantitative** research is the type of survey in which every participant is asked an identical set of questions.

The answers provide key statistical information.

- For example, a survey by a tennis club developer may find that 22 per cent of local adults play tennis, seven per cent are already members of a club and eight per cent would like to join a club.

  Using this information, the developer can decide where to build a new club and how large it should be.

2.2 **Qualitative** research explores people's feelings and attitudes by letting them discuss things (eg 'Why do you like playing tennis?').

The questions can be answered in a focus group - usually six to eight people - or in one-to-one interviews.

- The tennis club developer might discover that most people join tennis clubs to make new friends and so decide to add a bar or cafe to the building plans.

  Insights like this can give you a significant edge over your competitors.

2.3 Find a **sample** of your target market, get them to try your product or service and give their opinion.

- To find out if people would use your service, you could contact relevant businesses and arrange a morning event for people to drop in for a coffee and a demonstration. At the very least you will be making new contacts. Otherwise you could offer to drop in to see them.
- Approach potential retailers about test marketing. They may agree to put a prototype of the product in-store.

3 Analysing data fairly

It is important to be objective to avoid interpreting the results unfairly.

3.1 Keep your **distance** from any research.

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- Do not base market research on the opinions of friends and family. You risk hearing what you want to hear, rather than honest opinions.
- Record any comments from a focus group or you may forget criticisms that would enable you to improve the product or service.
- If possible, hand the analysis over to someone who is not immediately involved in the project.

3.2 Do not take **negative comments** personally.

- You can often learn more from criticism and improve your business because of it.

4 Low-cost research

4.1 Make use of existing **data** which is freely available.

- Trade associations often collect data from their members, which will give you a good insight into your industry.

  To find the relevant association, visitwww.taforum.org, a searchable database of trade associations in the UK.

- Some large libraries and universities will have relevant statistics.

  University departments or experts working in your field are likely to have data they can provide free of charge or at a low cost.

- If you use Internet search engines such as www.yahoo.co.uk or www.google.co.uk, check that the data is the most recent.
- Government databases are a useful source of statistics. Visit www.statistics.gov.uk for a wide range of searchable national statistics (0845 601 3034).
- Contact trade publications as they may have collected useful data from subscribers.

4.2 Many market research statistics can be **purchased**.

- Visit www.reports.mintel.com where you can buy reports analysing market trends, purchasing habits, consumer attitudes and trends in a number of sectors.
- You can buy market research reports on the building, construction and home-improvement products industry from AMA Research.
- Visit www.marketresearch.com. This searchable database of worldwide reports includes research from over 650 companies.

4.3 Your local business support organisation can provide advice on specialist research sources.

5 The competition

5.1 Check out what your **competitors** offer.

- Try the competition's products or services. It is the easiest way of understanding the market and what you will face when you become part of it.

  Carrying out a detailed analysis of their strengths and weaknesses will give you an idea of what you can do to establish a niche in the market.

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- Look at the potential the competition has to improve its service or upgrade its product.

  Work out how you can stay one step ahead.

5.2 Consider if the **demand** for the product or service will change over time.

- Selling a must-have product cheaply might be a success, but if it has a long lifespan then customers will not return frequently enough.
- Make sure customers have a need to keep coming back - this could be because the product has been updated, the old one has run out or worn out or because it is so good they want more.
- Could the market be affected by external factors, such as the economy or legislation? Are there any protective measures you could put in place?
- Look ahead to possible problems; you may be able to develop your product to a wider selection of markets to increase chances of survival.

5.3 Your **research** will have given you an idea of how many potential customers there are.

6 Professional help

6.1 For any kind of market research, particularly in the case of **surveys**, consider using a market research company or a marketing consultant.

- Specialists have the time and the expertise to do a good job.
- Customers sometimes find it difficult to voice complaints to the supplier of the product and may also worry that you are trying to sell them something.
- You may find it difficult to be impartial.

6.2 An **inexpensive alternative** to using a marketing company is to employ an individual to do the work for you.

- You might ask someone suitable to carry out a telephone survey, for example.

  This approach will only be successful if the survey is simple and well thought out.

- Provide a briefing and make sure the person fits the image that you want to convey to potential customers.
- Remember that street interviewers need local authority licences and identity cards.

6.3 Industry **associations** can offer further advice on using professionals.

- Visit the Chartered Institute of Marketing website.

Open/closed questions

When asking people to comment on your product or service, there are a few useful tips to remember.

- Asking a closed question will gain a limited response. 'Did you like X product?' is likely to be answered with a simple 'yes' or 'no'. While these answers are easier to collate, they are not as useful in determining why the potential customer does or does not like your product or service.

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- Asking an open question is likely to get a more detailed response. 'What do you think can be improved?' will be interpreted as a request for more than a one-word answer. Open questions will allow you to find out more useful information. It is beneficial to find out if they found the product or service useful - but it is more useful to find out why.

7 What does it all mean?

7.1 Effective market research will show you if you can gain a viable share of the market. But the **preparation** doesn't end here.

- Your market research is one of the most important first steps.

  The amount of time you spend doing research depends on the type of business you are starting.

- Don't allocate a fixed timeframe - your research will only be finished when you clearly understand your market and where you intend to position yourself in it.

7.2 Once you are up and running, **continuing** your research will allow you to keep on top of your customers' needs and ahead of the competition.

- Keep looking out for new areas of growth, whether this is improvement of your product or potential new markets.

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