

Chapter 5 Conducting start-up market research

Key terms

Desk research The process of gathering secondary data.

Field research The process of gathering primary data, using observation, experimentation or asking questions.

Market research The process of collecting and interpreting data about customers and competitors.

Primary research Involves information collected first hand, which did not previously exist.

Qualitative data Information gathered from a small group of people, using detailed discussions and interviews (quality information) to explore the attitudes of consumers in depth.

Quantitative data Data from a large group (quantity) of respondents showing numbers, proportions or trends within a market, such as how many people buy a particular product.

Sample A smaller group selected from a larger total in order to be representative of the attitudes and characteristics of the total population.

Secondary research Involves information that has already been collected or published.

In this chapter you will learn about how a business finds out information to help it to get started. Information about the potential market can come from a variety of sources.

Uses of market research

Market research is the process of collecting and interpreting data about customers and competitors. This research is the key both to understanding the needs of customers and to making more reliable business decisions.



New and existing businesses use market research to investigate the following.

MARKET TRENDS

- Market size and trends.
- Potential size of the market in the future.
- Actual and potential sales and market share.

CUSTOMERS

- Number of customers and whether their spending is growing.
- Market segments.
- Actual and potential customers.
- The needs, habits and lifestyles of different groups of consumers.
- Customer preferences.
- What customers want from the product.
- What price they are prepared to pay.
- How customers wish to buy the product.
- What methods of promotion will be most effective.

COMPETITION

- Who are the main competitors?
- What is the market share of these competitors?
- Strengths and weaknesses of each competitor.

MARKET RESEARCH – A SUMMARY

Benefits

- Helps to identify the wants and needs of customers.
- Allows the business to design and vary its marketing mix (product, price, place and promotion) to target the needs of different market segments.
- Enables a swifter response to changes in customer needs, allowing the business to stay a step ahead of its competitors.
- Research into existing competition allows a business to spot a 'gap in the market' that it can profitably fill.
- A new product can be developed and launched with greater confidence in its future success.
- The wasted expense of failed products or promotions can be reduced or eliminated.

Drawbacks

- Without clear objectives, research may produce irrelevant information or leave important questions unanswered.
- The sample may be unrepresentative of the total population due to a small sample size, bias in the method of choosing respondents or poorly constructed questions.
- Even with a carefully constructed **sample**, the results cannot provide 100% accuracy – if the business relies on the results, costly mistakes could possibly be made.
- Respondents may provide answers they think the interviewer wants to hear rather than their true views.
- Secondary data is often out of date while primary data can be expensive to collect and analyse.

Methods of primary and secondary market research

Market research can be carried out in two ways – **primary research** and **secondary research**. Neither one is necessarily better than the other but they do have different advantages and disadvantages and, for a business about to start up, not all methods included in both may be appropriate. The entrepreneur has to select what is appropriate for their circumstances.

Primary research refers to information that is gathered first hand by the entrepreneur or the business. It is unique in that it did not exist previously. Primary research is sometimes referred to as **field research**.

Secondary research uses information that has been gathered by someone else and which already exists. Secondary research is sometimes referred to as **desk research**.

Primary or field research

Field research involves gathering new and original, first-hand information or primary data. Field research can be carried out through observation, experimentation, surveys and interviews. For a business just setting up, some of these methods may be more appropriate than others. It will depend on the type of business and the funds available to the entrepreneur.

OBSERVATION

Observation involves, among other things, watching consumers as they shop, measuring pedestrian flows in a town centre or looking at how

rival products are packaged and displayed. Market researchers try to draw conclusions about shoppers from observing their behaviour – such as where they go when they enter a store or how long they spend selecting a product from the shelves. This information can be used to improve store and shelf layout or point-of-sale promotions. In itself, though, observation of consumer behaviour cannot answer questions about *why* customers act in certain ways.

EXPERIMENTATION

A crucial stage in the development and launch of a new product is to assess the reaction of potential consumers. It is vital to test and experiment with new product ideas. Manufacturing companies may build a prototype for testing and showing to prospective customers. This will be an essential part of the development and marketing process.

Some businesses use consumer panels. These are groups of consumers who are asked to give their opinions on ideas or products over a period of time. They may be used by marketeers to comment on a range of product ideas or samples.

Alternatively, a product may be launched in a small part of the market – such as one region or just a few stores in a chain – in order to test how actual consumers react to it. This is known as test marketing.

Experimentation and testing may seem like an additional cost or time delay, but without it a much greater loss of time and money may be suffered if a new product proves unsuccessful in the market. In addition, if the test marketing is very successful then the business can use this to market the product when it goes 'live' nationally.

SURVEYS

Questionnaires can be used to ask a large number of people pre-set questions. Before carrying out a questionnaire-based survey, a business must decide the following.

Objectives for the survey – what it is trying to find out?

A business is better able to collect the data it needs if the objectives are clear. Some objectives may be:

- to describe the current habits of customers
- to explain why they act as they do
- to help predict future trends in the market
- to explore how customers might react to a new product.

How to write the questionnaire to gain this information

In order to get information that is accurate and unbiased, careful attention must be paid to the way questions are phrased:

- The meaning of each question must be clear – the way the question is worded must not lead the respondent towards a particular answer.
- A balance must be struck between closed questions, which offer a limited choice of pre-set responses, and open questions, which allow respondents to offer their own views. Closed questions make it easier to collate and analyse data, while open questions allow for a more detailed insight.

The most effective method of carrying out the survey

Surveys may be face to face, by telephone or by post.

- Face-to-face surveys allow an interviewer to explain questions that the respondent does not understand, but introduce the possibility of bias in the way the interviewer presents the questions.
- Telephone surveys are quicker and cheaper than face-to-face surveys, but may generate resentment among customers.
- Postal surveys rely on customers completing and returning the questionnaire. It is a cheap method that may avoid interviewer bias, but suffers from low response rates.
- Online surveys can use web or e-mail. Web is often preferred over e-mail because interactive HTML forms can be used. They are inexpensive to administer and can produce results quickly.

How many people to question?

To question every actual and potential customer would be both expensive and time-consuming. To avoid this problem, a sample is chosen. A sample is a smaller group selected from a larger total group.

However, the sample should be large enough to provide data that is reliable and representative of the attitudes and characteristics of the total population. The more people who are asked, the greater the degree of confidence the business can have in the accuracy of the results. If everyone in the population were asked, there would be a 100% confidence level. If a sample can provide a 95% confidence level, the results can be considered statistically reliable. There is a small margin of error, but nothing that makes the results unusable.

Sampling: who to question?

If a business questions a sample of consumers, it must select a group of people representative of the whole population. Businesses will approach this in different ways. See page 42 for more information on sampling.

INTERVIEWS

To gain more detailed, qualitative information from a smaller group of people, personal interviewing will be much more useful than a survey. In a personal interview, the interviewer spends longer with each respondent, asking them a wide range of questions and exploring their responses more deeply. The interview is often led by the customer's (interviewee's) comments and will not necessarily follow set questions. The interviewer must be well trained, and the information gained must be properly recorded and analysed.

The results will not be statistically representative of the whole population because of the small sample size. However, when carried out professionally, this method may generate information that explains and explores issues far more effectively than any other market research method.

Secondary or desk research

Desk research is the process of gathering information that has already been collected or published. This type of information is known as secondary data.

Secondary data may exist within the business in the following forms.

SALES RECORDS

These identify trends in sales over time or sales patterns around the country.

CUSTOMER INFORMATION

There may be customer records of purchases, or what their future needs might be. The use of EPOS (electronic point of sale – where your goods are read by a bar code reader and the information collected) and loyalty cards allows many large retailers to identify customers' shopping habits and to use this information to target promotions. For a business just setting out, this type of technology is unlikely to be available, but records can be kept by a small business of sales and customer types.

SURVEY DATA

The results of previous market research surveys may still be of value. There will also be external sources from where existing, valuable information can be gained. The growth of the Internet has made an immense volume of secondary information easily accessible to firms. Such sources include:

Commercial data

Organisations such as Mintel or the Economist Intelligence Unit specialise in gathering market research data about a wide range of markets. Their reports can be purchased to provide detailed, up-to-date information about a specific market. For a small business this might not be a source of information because some of the reports can be very expensive.

Government data

Government departments collect and publish a wide variety of information about all aspects of the economy and society. The Office for National Statistics produces up to date data about social, economic and labour market trends, whilst the Census of Population provides a valuable snapshot of the country every 10 years. The ONS also produces a document called 'Social Trends' containing a wealth of information that can be very useful for a new or existing business.

INFORMATION ABOUT COMPETITORS

Examining rivals' websites reveals much about their products and prices. Competitors' annual reports and accounts can help to build up a valuable picture of their strategy. For a small business, getting information about competitors is no less important. Just because the business is small does not mean it is immune from competition from very large organisations, and in many cases such organisations may be the main source of competition.

OTHER PUBLICATIONS

Local libraries, Business Link or high-street banks help by providing access to a wide variety of other secondary sources, such as market profiles or journal articles.

Desk research can gather large quantities of data without great expense. Extracting useful information, however, can be difficult and time-consuming – whilst the data itself may be neither reliable nor up to date!

For a business just setting up, care will have to be taken in choosing the right type of method to gather market data. However, as we have seen in the section on business plans, potential investors will be expecting to see some evidence that market research has been carried out. In addition, for the entrepreneur, it will be an important exercise in assessing the likely success and viability of the business. The box below summarises some of the ways that businesses with a limited budget can use to gather market research.

MARKET RESEARCH ON A SMALL BUDGET

Primary research	Secondary research
<ul style="list-style-type: none"> Approaching local business people to find out more about the area and its potential. Conducting in-depth interviews with a small group of consumers to identify what really matters to them. Observing competitor products – their packaging, prices and promotions. Pedestrian and traffic flow counts to identify the most desirable location for passing trade. Discuss consumers' preferences, new products and trends in the market with suppliers or retailers. 	<ul style="list-style-type: none"> Look up competitors in the <i>Yellow Pages</i> or local newspapers. Obtain competitors' brochures and price lists by post, from exhibitions or from the Internet. Find trends and developments in the market through trade publications such as <i>The Grocer</i>. Local Business Link organisations or banks provide free information about specific product markets. Government facts and figures about society and the economy are available on the Internet or from local libraries. These help a new business to identify the threats and opportunities it faces from its external environment.

Qualitative and quantitative research

The information that an entrepreneur gathers about the market can be classified into two categories: **qualitative** and **quantitative** research.

Quantitative data

Quantitative data is information acquired from a large group of respondents showing numbers, proportions or trends within a market, such as how many people buy a particular product. This is particularly useful when a firm is using research to describe its market. The quantity of data makes it accurate and representative of the whole market. Analysis of statistics helps a firm to understand its market. However, on

its own, quantitative data is unlikely to help explain why the market is as it is. To understand why, qualitative data is needed.

Qualitative data

Qualitative data is information gathered from a small group of people, using in-depth discussions and interviews to explore their attitudes. This gives detailed information about the reasons why consumers act as they do, why they buy what they do, when they buy it and, in some cases, why they do not buy a particular product. The information provides an opportunity to respond more fully to customers' ideas. However, the few who are interviewed may not be representative of the whole market. This information is also more difficult to quantify and analyse so conclusions will be less scientific than with quantitative research. In addition, gathering qualitative data may be an expensive task as interviewers need to be trained and interviews can be lengthy.

Size and types of samples

A start-up business might be in a position where it decides to carry out some primary research. Having chosen an appropriate method, it then has to decide on a sample size and the type of sampling technique to use. Larger businesses might have a number of very sophisticated devices available to them to try and make the data collected as accurate and representative as possible, but for a start-up the methods generally include just three types: random, quota and stratified.

Random sampling

Random sampling involves selecting individuals in such a way that anyone in the total population has an equal chance of being chosen. To achieve a truly random sample involves careful planning, otherwise the location or time of day could lead to an unrepresentative sample. For example, a random survey outside a secondary school at 3.30 p.m. may lead to an over-representation of teenagers! A systematic method of random sampling, such as choosing every 100th name from a census list or from the register of electors (which is available at local council offices), is more likely to be successful. Small random samples are more likely to be unrepresentative as they probably will not include all types of people.

Quota sampling

Quota sampling involves identifying the exact sample proportions that the business wants to draw from each market segment. This may be done to build a sample that reflects the proportions of different groups within the total population. For example, if 60% of cola drinkers are male, 60% of the sample questioned should be male. If half of that 60% is under 25, the final sample selected should also reflect this. As long as the original information was accurate, this method has the benefit of producing a sample that reflects the make-up of the market.

Stratified random sampling

Stratified random sampling is used when a business is specifically interested in the views of a particular market segment, such as females in their 20s. The business first selects its market segment, the types of

people it wants to include in its sample, then it chooses people within this group at random in the way described above.

Factors influencing the choice of sampling methods

For a small business, the options open to them in conducting market research are more limited than in a larger business. However, as mentioned above, it is essential that an understanding of the market is generated for the entrepreneur to be able to plan effectively and meet customer needs. There are a number of factors that will affect the choice of sampling method that a small or start-up business might employ.

The nature of the product

If the product or service is planned to meet a very local market or a specific market segment, then quota or stratified sampling might be more appropriate than random sampling. A product or service aimed at a much wider market might be more appropriate to random sampling where large amounts of customers might be involved. Specialist products or services that meet individual needs might require qualitative information to be gathered and in such cases, more in-depth data may be required, meaning a stratified sample is the choice.

The risk involved

If the project is a highly risky one with a very high chance of failure then the requirement for more detailed market research might be more pressing. In such a situation there might be a case for not only choosing a random sample but also to carry out some additional qualitative research via a quota or stratified sample. This might give a more rounded picture of the views and needs of the market and help the business in its decision-making.

Available finance

Conducting any market research requires some cash outlay. The size of a sample and the method used, as well as the way in which the results can be processed, might all be limited by the amount of cash available. For a small business this might be very limited.

The target market

As mentioned above, the type of product might be aimed at a particular target market – young people aged between 15 and 19, people living in three-bedroomed detached houses, people who watch more than 48 hours of TV per week, people with an interest in jazz guitar, and so on. These types of people will have specific requirements and it might be far more appropriate to find out what those requirements are through a quota or stratified sample than a random sample.



Further material and resources relating to this section can be found at www.collins.bized.co.uk. Keep checking for updates.

Conducting start-up market research: Summary

- Market research is important in helping a business to understand the market it is planning to operate in more effectively.
- Market research can be either primary (or field) research, or secondary (or desk) research.
- Market research can be quantitative – which provides numbers – or qualitative – which can explain how people behave and why they behave in those ways.
- In conducting primary research, a business will have to think about sample size and the type of sampling to use.
- Samples can be random, quota or stratified.

Summary questions

- 1 What is market research?
- 2 Explain the four different types of question that market research can seek answers to, giving an example of each.
- 3 State three benefits and three drawbacks of market research.
- 4 What is the difference between quantitative and qualitative data?
- 5 Give three examples of secondary data that may exist:
 - (a) within the business
 - (b) outside the business.
- 6 What is primary data?
- 7 Explain why observation and experimentation can be useful types of field research.
- 8 What does a business need to consider before conducting a survey?
- 9 Describe three factors that might influence the sample size and the method of sampling a small business might use
- 10 What is the difference between random sampling and quota sampling?

Points for discussion

What methods of primary research would you use to collect information about the following products? Justify your choices.

The products

- An MP3 player.
- A new first-person shooter computer game.
- A new business offering home painting and decorating.
- A device for plasterers that helps improve the consistency of the plaster mix.
- A business offering a photo-framing service.
- A florist.

Think about:

- (a) The method you would use and how you would carry this out.
- (b) What type of person you might ask.
- (c) Why you would ask those particular people.

Exam practice

The man responsible for inventing the C5 battery-powered one-seater tricycle launched in 1985 has tried to launch a new product. The C5 was a disaster – the market research was simply wrong and it did not meet consumer needs; it flopped badly.

Sir Clive Sinclair's latest attempt at personal transport is the A-bike. Sir Clive has teamed up with a Chinese firm called Daka to develop the bike – it has taken almost twenty years to get to this stage. The bike is called the A-bike because it has the shape of an A when opened out. It is light, weighing in at only twelve pounds, and is likely to be sold for around £200. When folded, it is half the size of current folding bikes on the market and is considerably lighter. Sir Clive anticipates marketing the product around the world and points to the fact that 'many thousands' have already been ordered.

At the moment there are some limitations as to who can use the bike. There is a weight limit of 13 stones and people over six feet four might find the riding experience a little uncomfortable, given the position of the handlebars in relation to leg space. The design of the bike does allow people up to 17 stones to ride it but Sir Clive is suggesting that until they have more experience with sales and the use of the bike, the 13 stone limit will apply. It may be that the experience of the C5 has helped Sir Clive and Daka in developing and marketing this product.

Source: adapted from Biz/ed 'In the News' <http://www.bized.co.uk/cgi-bin/chron/chron.pl?id=2643>

- 1 Explain what method of market research Sir Clive might have used in developing the A-bike. (6 marks)
- 2 Explain one reason why Sir Clive might have used the method you have selected. (4 marks)
- 3 Consider the factors that might have influenced the type and size of sample that Sir Clive might have used in any field research conducted. (8 marks)
- 4 Examine TWO benefits and TWO drawbacks of market research for a product like the A-bike. (12 marks)
- 5 To what extent will careful market research result in success for the A-bike when the C5 failed so miserably? (10 marks)

Total: 40 marks