Marketing Research

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Introduction

- **<u>Market research</u> is an organized process to collect information about the business environment before the business starts or a product is sold.**
  - It includes collecting and/or analyzing data about potential customers, talking with customers about their buying habits, and listening to customer requests for products and services.
  - It happens before a product is sold on the market but also is an ongoing process to help a business better understand their target market and adjust to changes that occur to that segment over time.
- **Market research can also provide valuable insight to help you to:**
  - Reduce business risks.
  - Spot current and upcoming problems in your industry.
  - Identify sales opportunities.
  - Determine if a business venture will be profitable.

Benefits of Market Research

- **Market research…**
  1. Determines product strengths and weaknesses as well as market opportunities and threats.
  2. Splits customers into distinct groups ranked on their likelihood to purchase your product.
  3. Identifies the needs and wants of the groups that are most likely purchase from you.
  4. Determines if your product (or service) meets these customers' needs.
  5. Determines the best marketing techniques for increasing the likelihood of purchases by this group.
  6. Determines the key influencers in the decision-making process.
     - *For example, Mom might be the one who ultimately buys the Fruit Loops, but it's the kids who beg her for it incessantly.*
     - *For this reason, it might be better to market to the kids than to mom.*

SWOT Analysis

- **A SWOT Analysis is a logical starting point for market research.**
  - SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats.
    - *A SWOT Analysis is a method to analyze the product (or service) you intend to market to assess its specific attributes.*
- **A SWOT Analysis should be performed before conducting any market research because…**
  - It will help you to identify concerns the must be addressed before marketing can begin and…
  - It will help you to focus your marketing and your marketing research to enable you to acquire more valuable data for decision-making.

Source: www.umt.edu

SWOT Considerations

- **SWOT is usually broken into two considerations:**
  - Strengths and Weaknesses focus on the internal factors of a product that currently exist.
    - *You usually have direct or indirect control over these factors.*
    - *These factors usually occur in the present.*
  - Opportunities and Threats focus on external factors that will likely occur in the future.
    - *Often you only have indirect or no control over these factors.*
    - *These factors usually occur in the future tense.*

Source: www.how-to-start-a-business-guide.com

Strengths & Weaknesses

- **Strengths are the attributes of a product (or company) that give it a competitive advantage.**
  - For example, if your product can provide a benefit that no other similar product can provide (also known as Unique Selling Points, or USPs), this would be an obvious strength.
    - *Unique selling points are also known as Points of Differentiation.*
  - This is also true for matters such as brand recognition, a loyal customer base, low cost compared to competitors, financial ability to sell your product, other company assets, customer awareness, innovative product components, quality of the product, etc.
- **Weaknesses are the attributes of a product that make a competing product seem like a better choice.**
  - This could be a higher cost of your product, a benefit your product cannot provide, a patent on an already-existing product, etc.
  - Weaknesses suggest how best to position your product(s) against a competitor's.
    - *For example, if your product has a higher cost, it might be wise to acknowledge that your product also provides specific additional benefits that justify this extra cost.*
  - Often if something is not a strength, it is a weakness.
    - *For example, if your product does not have "more affordable" as a strength, then this is a weakness by default.*

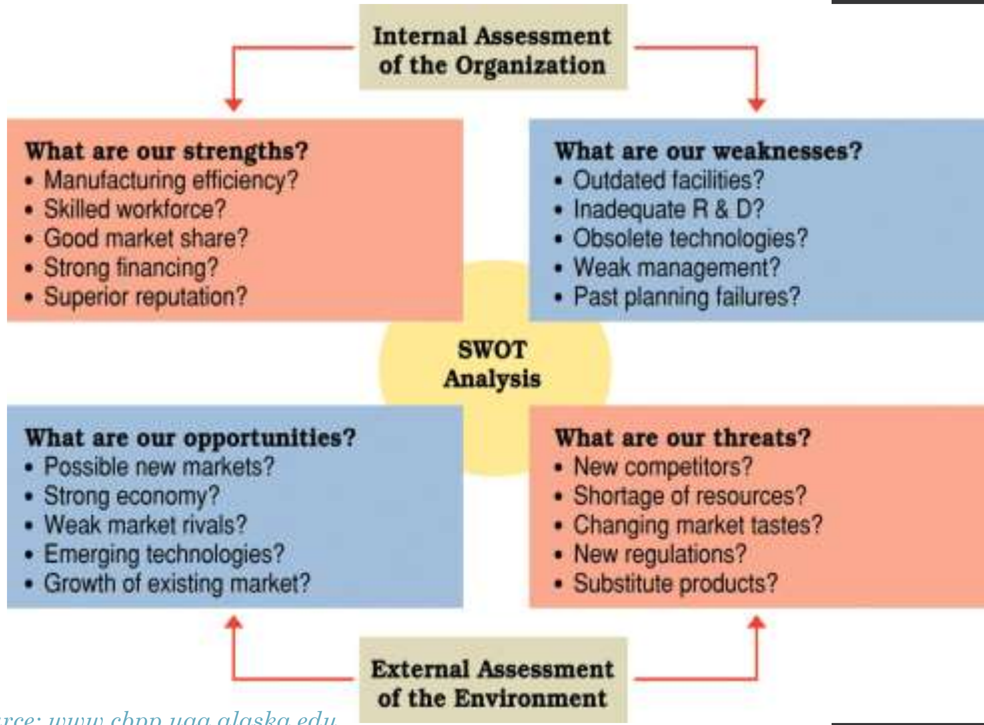
Opportunities & Threats

- **<u>Opportunities</u> are the external factors that make you more able to sell your product.**
  - For example, if your competitor cannot lower their price as easily because they rely on printed catalogs, this is an opportunity for your product if you use only digital promotion.
  - Other examples of opportunities include changes in customer expectations, new technologies, social media, economic growth, competitor's vulnerabilities, unutilized niche markets, element of surprise from a new product, potential partnerships, etc.
  - Lots of opportunities also come through *logistics*, such as an established distribution channel, existing relationships with dealers/retail, etc.
  - Opportunities differ from strengths in that opportunities are external factors usually beyond your control and strengths are internal factors that you can control.

- **<u>Threats</u> are the external factors that make you less able to sell your product**
  - A threat might include the expected opening of a competitor's new store near to your target market.
  - Others include political/legislative changes, environmental issues, a possible lack of market demand, etc.
  - Threats differ from weaknesses because threats are external factors usually beyond your control and weaknesses are internal factors that you can control.

SWOT

- **Once you have conducted a SWOT Analysis, you must address the following:**
  - How do I use my product's strengths most effectively?
  - How do I fix or negate the weaknesses of my product?
  - How do I capitalize on the opportunities that exist to sell my product?
  - How do I prevent or negate the threats to the sales of my product?
- **Your SWOT Analysis should help you to narrow your focus by addressing how your product should be modified, portrayed, and improved so that it is more appealing.**



Source: www.cbpp.uaa.alaska.edu

Market Research

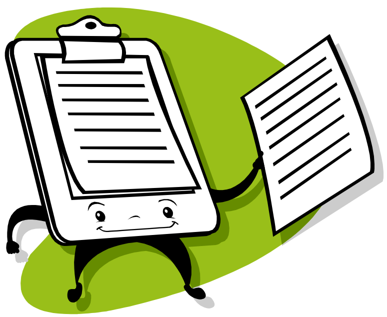
- **Once you have a general idea of what you will sell, you are able to begin the process of data collection to refine your marketing tactics.**
  - Market research provides information that provides the basis for both how to sell your product and how successful you will most likely be at selling your product.
- **Market research should address the following:**
  - Who would buy your product and how large is this group?
  - What percentage of this group will you likely acquire as customers?
  - What factors would motivate this group of people to buy your product?
  - Who are your competitors and how do you most effectively compete against them?

Market Research

- **Market Research can be broken into two categories: Primary Research & Secondary Research.**
- **<u>Primary research</u> entails personally collecting data through surveys and other field research.**
    - *Examples of primary research includes personal interviews, surveys and focus groups.*
  - Surveys can include quantitative data or qualitative data.
    - *Quantitative data involves anything that can be counted or assigned a number.*
      - For example, the average income of your potential customers or their average age can be obtained through surveys.

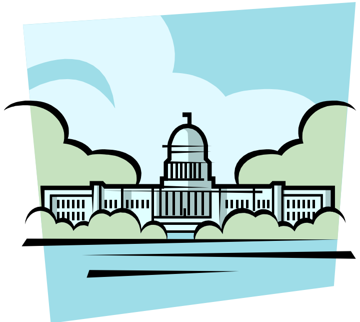
Primary Research

- **Qualitative data is data that cannot be expressed as a number.**
  - This often involves beliefs, opinions, and experiences.
  - Often this is collected through open-ended questions, through focus groups, or through personal interviews.
- **Both qualitative and quantitative information can be important to you as you do your market research.**
  - By using both kinds of data, you develop a good base of information from which to make a decision.
- **Primary research generally works best when it incorporates an appropriate mix of quantitative surveys, qualitative surveys and personal interviews, and focus groups or other market simulations.**
  - Primary research can also be very expensive, which may make already-existing research a more attractive option than funding new research.



Secondary Research

- **<u>Secondary research</u> involves using preexisting information that has already been collected by another group.**
  - For example, the federal government collects large amounts of data to assist businesses in making their decisions.
    - *A great source to begin with is http://www.bls.gov/bls/wages.htm*
    - *The Bureau of Labor and Statistics organizes the data it collects by industry type, by specific occupation (such as 'teacher' or 'carpenter'), and by geographical area (region, state, city, or county data).*
    - *The BLS can provide state-by-state statistics on average income for different occupations, growth in openings in those occupations, etc.*
  - Universities often conduct this kind of research as well.
    - *The Business Department of major university is likely to have valuable publications on industry trends, customer expectations, etc.*
  - Trade associations also frequently collect data to enable their businesses to make smarter decisions.
  - Other sources of information include banks, real estate agencies, economic development agencies, chamber of commerce, and more.



Questions

- **In order to determine who your target market will be, your SWOT Analysis and your data collection should be done in a manner so that it helps you to answer the following questions:**
  1. Who would be most likely to buy this product?
  2. What would compel a customer to buy my product and not a competitor's?
  3. Under what circumstances is a customer most likely to buy this product?
  4. Can I sell additional items to accompany my product (complimentary products, accompanying services, etc.)?
  5. Where do customers buy? Online? At a physical location?
  6. How do customers want to pay? Cash, credit, etc.?
  7. What factors would most motivate my customers buy? Convenience, price, quality, reputation, location, selection, brands, impulse, etc.?

Differentiated Marketing

- **Your SWOT Analysis and market research should enable you to tailor your product's attributes to a specific group of people.**
- **Most small businesses cannot afford to market to everyone.**
  - <u>Undifferentiated marketing</u> (marketing to any possible customer) focuses on the common needs of consumers.
    - *This technique relies on mass advertising.*
    - *Undifferentiated marketing is successful when the competition is scarce or the product has mass appeal.*
  - Most businesses must focus its resources on those types of people who are most likely to buy your product through a process called differentiated marketing.
    - *The advantages of differentiated marketing include greater customer loyalty, higher likelihood of repeat purchases, less competition, and reduced costs associated with production, distribution, and promotion.*
- **<u>Differentiated marketing</u> depends on market segmentation.**
  - <u>Market segmentation</u> is the process in which the entire customer base is divided into smaller categories of people who have common needs and priorities in order to develop strategies that work most effectively for these

Segmenting Your Market

- **To be effective and valuable, a market segment must be:**
  - Measurable and specific – you have to be able to tell who is a part of this segment and who is not.
  - Able to be reached by your methods of communication.
  - Relatively steady, stable, and unchanging.
  - Sizeable enough to be profitable.
  - Able to participate - customers must have the money and willingness to buy the good or service offered.

- **Markets can be segmented by five primary bases:**
  1. <u>Geographic</u> (region, climate, rural/urban, or geographic growth).
  2. <u>Demographic</u> (age, gender, ethnicity, occupation, income, or family-status).
  3. <u>Psychographic</u> (values, attitudes, and lifestyles).
  4. <u>Behavioral</u> (usage rate, price sensitivity, and brand loyalty).
  5. <u>Benefits Sought</u> (quality, value, and service as wanted benefits; emphasis on convenience and self-improvement).

Steps of Market Segmentation

1. Define the product attributes that will result in the most marketing gains through a SWOT analysis.
2. Identify and describe potential segments.
   - *Divide your potential customers into realistic groups based on geographic area, demographics, psychographics, and behavioral traits.*
3. Rank these segments based on their likelihood to purchase from you.
4. Determine the wants, needs, benefits desired of the top market segments through surveys, data collection, and focus groups.
5. Identify competing products and their strengths and weaknesses in regards to your specific market segment(s).
6. Compare your product to that of your competitors for each need and desired benefit specific to your target market through a position statement.
7. Create a positioning strategy – how will you promote our product so that it most appeals to the market segment most likely to purchase this product?
   - *This should involve the 4 P's – Product, Price, Place, and Promotion.*
   - *It should be distinct and separate from your competitors' strategies.*
8. Implementation of the positioning strategy – how will you most effectively make this strategy a reality?
9. Assessment of the effectiveness of the marketing strategy – is it working? How do you know?

Position Statements

- **Once you've identified the market segment that will become your target market, the next step is to develop a position statement.**
  - A position statement is concise explanation of your target market as well as an encompassing description of how you want that group of people to perceive your brand based on their attributes and needs.
- **Every marketing decision that is a part of your positioning strategy needs to align with the ideas expressed in your position statement.**
  - A position statement should be unmistakable and easy to understand – everyone who reads it should come to the same conclusions about how the product to be sold will be portrayed.
  - It should also be credible, able to deliver on its claims/promises, and allow room for future growth.
- **A typical position statement should read like the following:**
  - For [the target market], the [product] is the [unique selling point] because [reason why your product is the best for this group].
  - E.g. *For World Wide Web users who enjoy books, Amazon.com is a retail bookseller that provides instant access to over 1.1 million books. Unlike traditional book retailers, Amazon.com provides a combination of extraordinary convenience, low prices, and comprehensive selection.*
    - *Source: blog.ecornell.com*

Positioning Strategies

- **Your position statement should help you to design your positioning strategy.**
  - A positioning strategy is the collection of marketing strategies a group will use to persuade a target market to purchase or use their product or service.
- **Questions to Ask When Designing a Positioning Strategy**
  - Are our potential customers aware of us?
    - *If so, to what extent?*
    - *How does this need to change in order to communicate effectively?*
  - What percent of this market segment is reasonable for us to acquire?
    - *How did we determine this figure and how do we know it is accurate?*
  - Who are our competitors and what message must we communicate to them to make our product seem like the better choice?
  - What resources do we need to keep our market segment and do we have these resources?
  - What are our top priorities for reaching our targeted market segment?
  - Does our final plan match the priorities we need to reach our targeted market segment?

Breakeven Points

- **When developing a positioning strategy to appeal to your target market, one of the most important considerations is pricing.**
  - The main concern in regard to pricing is to ensure that your income is greater than your costs, but not so great that your competitors' products become more appealing to your target market.
- **The main determinant of whether or not your product will be profitable is if you meet or exceed your break-even point.**
  - The breakeven point is the volume of sales of a product at a specific price for which total revenue equals total costs.

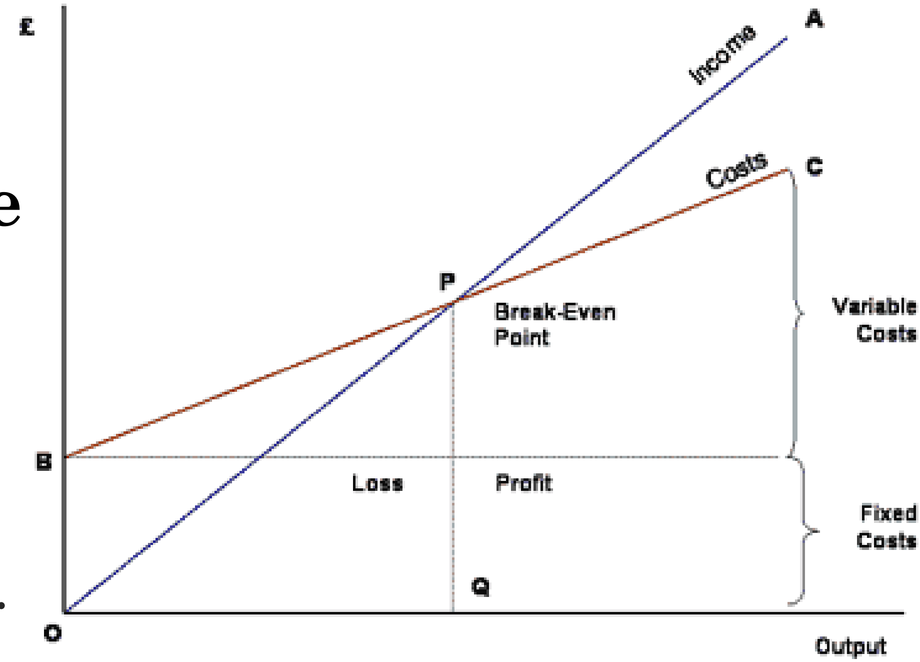


Image Source: http://home.ubalt.edu/ntsbarsh/Business-stat/otherapplets/BreakEven.htm

Breakeven Analysis

- **<u>Breakeven analysis</u> is the process in which the breakeven point is determined and ultimately determines if a business venture can expect to be profitable and sustainable.**

- **This is calculated using the following variables:**
  - <u>Selling Price per Unit</u>: This is how much your product costs to purchase.
  - <u>Total Fixed Costs</u>: this is the sum of all the expenses associated with producing your product.
    - *This amount will stay the same regardless of how much you initially produce.*
    - *For example, if you need to build a factory to produce your product, the cost of the factory is the same whether it is used one day per week or seven.*
  - <u>Variable Unit Cost</u>: these are the costs per unit of product that increase or decrease as production increases or decreases.

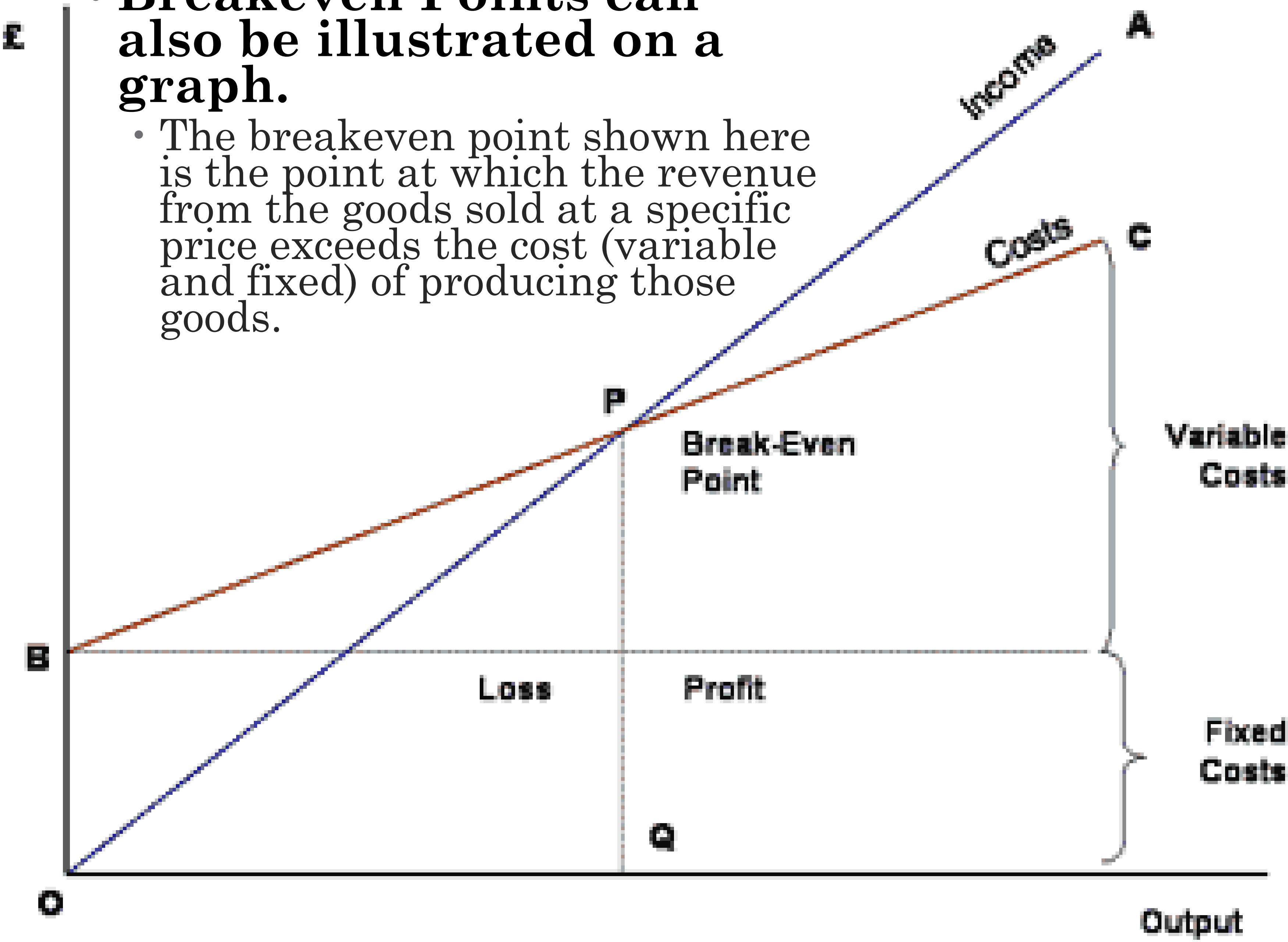
Breakeven Analysis

- Total Variable Cost: this is the total cost for total production of your product.
  - *This would be determined by multiplying your variable unit cost times that amount you expect to sell.*
- Total Cost: the sum of the total variable cost and the total fixed cost.
  - *Don't forget to include items such as property and/or equipment leases, loans, utilities, and salaries.*
  - *Other costs can include markdowns, shortages, damaged merchandise, employee discounts, cost of goods that were unsold.*
- Forecasted Net Profit: This is how much you would actually make once you subtract your total costs from your total income.
- Breakeven point: this is the point at which total costs equal total income.

Breakeven Point Formula

- **The breakeven point can be represented by the following mathematical formula:**
- **Break-Even Point (Q) = Fixed Cost / (Unit Price - Variable Unit Cost)**
- **In most cases, your price should always be greater than your breakeven price (the amount at which you need to sell a given amount of a product in order to break even).**
  - If you cannot sell a product and make money doing it, there is little reason to produce that product.
- **The exception to this is loss-leader pricing.**
  - For example, Thanksgiving Turkeys are sold at a price at which the grocery store makes minimal income, or even possibly loses money, with the hopes of the shopper making up for these losses by buying the rest of their Thanksgiving meal at the store.
- **With exceptions aside, there is rarely any reason to sell a product for anything near or below the breakeven point.**
  - Selling a product for minimal or no profit is unsustainable because you will eventually exhaust your financial resources.

- **Breakeven Points can also be illustrated on a graph.**
  - The breakeven point shown here is the point at which the revenue from the goods sold at a specific price exceeds the cost (variable and fixed) of producing those goods.



Pricing a Good

- **Determining the breakeven price is usually the first step in determining the market value for a product or service.**
  - The market value is the price a good or service would be most likely to receive in the marketplace.
- **To determine the appropriate market value, products need to be priced to cover production costs AND make a reasonable profit.**
  - This is especially true if a product has variable or unpredictable costs, such as losses due to weather or shoplifting, costs that change like insurance, fluctuations in demand, or fluctuating fuel prices.

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