

MARKET RESEARCH

(Adapted from several SCORE Counselor sources)

Market evaluation must be conducted during successful business planning. Research provides basic data that identifies where you can successfully sell your product or service and how much to charge. The process involves understanding your competition, potential customer base and suppliers. The market research information will help you adapt your product and service to better meet customer needs.

The words "market research" are often scary to small business persons even if they have advanced college degrees. They don't need to be. Simply stated, your challenge is to determine if there are customers for your product or service and how will you get them to buy. Furthermore, you will want to know how many customers there are, how much will they pay and how fast will they write you a check.

Understand that this is not an academic exercise. Its objective is to generate meaningful operating numbers that can be used for your pro forma (projected operating financial numbers). Ultimately, you will have to implement your business plan and place the actual results along side of your pro forma numbers to see if you are meeting your benchmarks.

View the procedure as an upside-down triangle or funnel starting with a wide base of information gathering. Ultimately, the wide base of knowledge is narrowed down to specifically reflect your operating numbers on your pro forma. Irrelevant information is discarded.

The wide base of information is available at the library in publications such as Robert Morris Associates and Dun and Bradstreet. The business section librarian can help. Try CD-ROMS which most BIG business libraries have. A typical one is Dunn's Regional Directory on CD-Rom. The SIC codes must be identified and the geographical areas of interest are selected. These can be by Zip Code, county, region or national. You can get listing of potential clients and/or competitors on a floppy, which can be loaded onto Excel or other spreadsheets. The information includes sales and information about the products and the principals. It can also be used to look for potential vendors. However, these sources have limited information regarding very small or new businesses. Major accounting firms also publish operating numbers for various industries. Your accountant may be able to help you get to the right accounting firm. Each industry's trade association has operating statistics.

A list of all trade associations is catalogued in a good business library. The Encyclopedia of Associations lists all trade associations. Many trade magazines publish industry statistics. A list of most trade magazines can be found in Standard Rate & Data Services at your library or the print media department of advertising agencies. Use online search engines and check out web pages such as (www.findsup.com) and www.census.gov). The more corroboration you obtain from various sources the better.

Find all the trade shows at:
<http://www.tscentral.com>

And the trade associations will be represented at the trade shows serving their industries.

See American Society of Association Executives at:
www.asaenet.org

which could lead to a listing of all associations

Try <http://www.marketingsource.com/associations/>

This broad information may not reflect the uniqueness of your product or service, specific selling techniques, the personality and size of your company. Therefore, you need to narrow it down by making it a better fit. Perhaps the trade association or the accounting firm can refer you to some of the actual companies in your industry that may be willing to share information with you. Sometimes the companies are willing to help budding entrepreneurs who are introduced through credible channels. Your own experience may help in the narrowing process but its not nearly as credible or objective as a third party source.

Narrow the operating numbers even further by talking to prospective customers and salespersons with competing companies. If you are a would-be restaurateur or retailer for example, visit every restaurant or similar retail store in the area. Tactfully question customers exiting competing establishments. How did

they like the product (food)? The service? What would they like to see in the neighborhood? What do they think of your idea and what are they willing to pay?

If possible, test the market by making actual sales calls in your market (or in a similar market if confidentiality is a consideration) and trying to close deals. Often you will learn more by asking a customer to put up their money than gathering hypothetical data. Of course if you are already in business, your historical numbers become very important in projecting the future. Include all the details and the math. Refer back to it when footnoting the operating numbers in your pro forma.

You can also conduct the market research using the yellow pages of the telephone book, Internet, newspapers and other forms of advertisements like radio and television. Contact the firms that would be your closest competitors—those doing a similar type of business.

Try approaching them as a potential customer or client, asking for rates/prices, type of work, and references. Contact some of these references to determine client/customer satisfaction. Carefully note the name, address, telephone number, quality, timeliness, weaknesses and strengths of each competitor. To obtain a valid sample, contact up to ten (10) competitors or at least 10% of the competitors.

Next, make an effort to understand the demographics for your potential customers or clients. Some questions to ask:

1. What customers and clients would purchase your product or pay for your service?
2. Where are these customers and clients?
3. Why do these customers and clients need my product or service?
4. Can the potential customers and clients afford your product or service?
5. How critical is your product or service to the potential customer or client?
6. Can I compete effectively in price, quality and delivery?
7. Will I be able to make a reasonable profit with my product or service?
8. Is my market growing or shrinking?
9. Do I have alternative sources of supplies?

Then, determine your niche (competitive advantage), such as higher quality products/services, faster service response, lower expense, better location, etc. Then, set your rates/prices competitive with the competitors—not too low.

The Importance of Understanding Your Customer or Prospective Customers

1. Every service or product must be developed and evaluated based on:

The real needs of your customers—not your values (what you think they need based on your own feelings)
So...

You must think like a customer!!

2. You must offer a distinctive point of difference:
 - *Market segments that make sense for you*
 - *Uniqueness and competitive advantage*

CUSTOMER INPUT IS KEY

Talk to Customers Prospects—Current—Competition—Past

- Talk to Friends
- Talk to “experts” such as vendors, SCORE and, if your already in business, your employees
- Talk to Yourself as if you are a Customer
- Focus Group—Talk to a Group of potential customers
- Test sell your service or products to potential users
- Consider organizing an Advisory Board of key customers.

WHAT TO ASK?

Motivation:

- Why do you buy?
- Why do you **not** buy other products and services?

Decision Criteria:

- What is most important to you in the purchase decision?
- What other things are important to you?

Satisfaction:

- How satisfied are you with your present vendor
(Could be your firm)?
- Satisfaction with your firm?

Dissatisfaction:

- Dissatisfaction with their current firm?
- Dissatisfaction with your firm?

ASK THE RIGHT QUESTIONS

- Of your customer
- Of your Customer Advisory Board, if you have one.
- Of yourself as if you were a customer
- Ask what problems they have with service or product
- Actively solicit suggestions for improvement; look for reasons behind the suggestions.

One Very Good Field Test: Draft up a selling flyer, typically one page. If it is a product, then make a model or even have just a good drawing or picture of some sort to include with the flyer. The flyer should focus on features AND benefits.

Then, with such in hand, go and visit prospective buyers to get their reaction, preferably around a reasonably structured interview questionnaire (just to keep them on track). And, take careful notes of the reactions. Positive answers to "would they purchase" type questions should, of course, be taken with a "grain of salt". But "no" answers should be taken very seriously. Then, with feedback from a representative number of people, either drop the idea, or modify it to meet the objections and suggestions. Then go back to the same people plus some new ones.

This can be a time consuming process, but it very cost and results effective. And remember, when it comes to what people would pay for the item or service, value is in the eyes of the customer, not you. The ultimate validation of a set price is that people actually buy or sign a letter of intent to buy.