

The Importance of Market Research

1. What is market research?

Successful businesses have extensive knowledge of their customers and their competitors. Market research is the process of gathering information which will make you more aware of how the people you hope to sell to will react to your current or potential products or services.

Whether you are aware of it or not, as a business owner you conduct market research all the time. When you talk to customers about your business or check out the prices of your competitors you are conducting market research. Formalizing the process can produce a wealth of information about your products and services, your customers and the marketplace you operate in.

The level of complexity used in your market research campaign is up to you, as market research can cover a broad spectrum of activities. You can undertake simple activities that can be done on your own, such as creating a short customer satisfaction questionnaire or studying demographic data for your area, or undertake complex ones that require assistance from a professional market research firm. Regardless of the size of your market research budget, the time you have available or your level of experience, some form of market research is possible and it can help you to improve your business decisions.

2. Why conduct market research?

The goal of doing market research is to equip yourself with the information you need to make informed business decisions about start-up, innovation, growth and the 4 'Ps': product, price, place and promotion.

Product — Improve your product or service based on findings about what your customers really want and need. Focus on things like function, appearance and customer service or warranties.

Price — Set a price based on popular profit margins, competitors' prices, financing options, or the price a customer is willing to pay.

Placement — Decide where to set up and how to distribute a product. Compare the characteristics of different locations and the value of points of sale (retail, wholesale, and online).

Promotion — Figure out how to best reach particular market segments (teens, families, students, professionals, etc.) in areas of advertising and publicity, social media, and branding.

Part of being prepared with market research is avoiding unpleasant surprises. Intuition and experience can be helpful at times, but research and facts often paint a more accurate picture of your market.

By conducting research on a regular basis, you can keep up with the dynamics of the economy and demography. You can also adjust to new regulations and technological breakthroughs.

Market research can help you:

- Understand your customers and their preferences (4 Ps)
 - Profile your customers (location, age, gender, income level, etc.)
 - Create more effective marketing campaigns
 - Find the best business location

- Identify opportunities to grow and increase profits
 - Recognize changes in demand
 - Offer new products or services for the new demand
 - Find new markets within and outside of Canada
- Recognize and plan for industry and economic shifts
 - Shift inventory, price and staff levels as needed
- Monitor the competition in your market
 - Identify competitors
 - Get information on how your competitors operate
 - Learn how customers compare you with your competitors
- Mitigate risk in your business decisions
 - Use information, not just intuition, to drive your business decisions

3. When to conduct market research

Market research is widely viewed as a component of the planning stage of a business. Indeed, market research is critical for new start-ups and should be a key element of any entrepreneur's business plan. Market research data feeds into a number of areas of the business plan, contributing to sections on:

- Determining the sales potential of your products and services
 - Identifying the demographic characteristics of your customers
 - Selecting the appropriate business location
 - Setting the price for your products and services
- Attracting customers to your business
 - Establishing your company image
 - Setting prices for your products and services
 - Ensuring advertising is on target
- Selling to customers and earning repeat business

Business plans and market research are not solely for new businesses. Accurate assessment of the market and development of an effective plan is critical to the success of both new and existing businesses.

Businesses contemplating significant changes, such as business expansion and relocation, are also wise to use market research to support their decisions. Examples of situations that might call for market research include:

- New advertising campaigns
- Opening a new location or changing business locations
- Increasing production levels
- Introducing new lines of products or services

Courtesy of Business Development Bank of Canada (BDC)

The kind of information gathered through marketing research during the planning and growth stages of your business can also be very useful in its day-to-day operation. A regular flow of market research information can help you to maximize the potential of your current business activities and help you to create a roadmap for future growth.

4. How to conduct market research

First, it is important to establish clear goals for the market research activity you will undertake. You need to make sure you have defined what you need to know and why.

Once you have established your goals, it is important to develop a strategy and select techniques you will use to gather data. The two broad types of research you can use are primary and secondary research.

Primary research

Primary research is original information gathered through your own efforts (or on your behalf by a hired research firm) to respond to a specific question or set of questions. This information is normally gathered through surveys, observation, or experimentation.

The following are examples of questions that can be addressed through primary research:

- Who are my customers and how can I reach them?
 - Customer profiles
 - Prospective business locations
 - Marketing strategies
- Which products and services do buyers need or want?
- What factors influence the buying decisions of my customers?
 - Price, service, convenience, branding, etc.
- What prices should I set for my products and services?
 - Customer expectations
- Who are my competitors, how do they operate and what are their strengths and weaknesses?

Some drawbacks of primary research are that it can be time consuming and expensive if not performed yourself, and the results are not available immediately.

The benefits of this type of research are that you can specifically target desired groups (such as your customers or the geographic market for your business) and can tailor your research instrument to answer specific questions. In addition to keeping the costs down, an added benefit of doing the research on your own is that you will get to know the market for your business better.

Surveys are the most common way to gather primary research. Surveys can be conducted:

- Through direct mail
 - Hand out at the place of business or mail out with survey returned in person or via mail
 - Questionable effectiveness; follow-up reminders necessary
- Over the telephone
 - Cost-effective

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- Can be difficult to reach participants
- Little appetite in the public for telephone interruptions
- On the web or via email
 - Allows participants to complete the survey on their own time with little effort
 - Cost-effective
- In person
 - Personal interviews or focus groups
 - Can introduce follow-up questions or change the focus of the survey on the spot
 - Can be difficult to recruit participants

When designing your own research questionnaire, be sure to:

- Keep it as short and simple as possible
- Make sure it is visually appealing and easy to read
- Move from general questions to more specific questions
- Make sure questions are brief and easily understood
- Avoid leading questions, questions with ambiguous words, questions that are too difficult to answer (due to recall problems, etc.)
- Make sure any response scales used are logical with categories that are mutually exclusive
- Always pre-test your questionnaire to identify potential problems

The web is a good resource for sample questionnaire questions that can be adapted to answer your suit your particular research needs. There are also a number of companies that allow you to create and conduct surveys online.

Some business owners are reluctant to ask their customers to complete a questionnaire for fear that their customers will be made to feel uncomfortable or annoyed at the inconvenience. A good way to reduce any awkwardness is to offer your customers an incentive to fill out a questionnaire. You might reward them with coupons or hold a prize drawing for customers that turn in a completed questionnaire.

Good information on your customers can often be obtained without engaging them directly. Interviewing your employees can provide excellent insight, as they are in constant contact with your customers and can provide information on:

- Customer profiles
- Goods and services that customers demand
- Satisfaction with price levels and quality of service
- Experiences with your competitors

Secondary research

Secondary research exploits existing resources like company records, surveys, research studies and books and applies the information to answer the question at hand. It is normally less time consuming than primary research, and can be less expensive as well.

While secondary research is less targeted than primary research, it can yield valuable information and answer some questions that are not practical to address through primary research (such as assessing macro-economic conditions) or questions that may make customers uncomfortable if asked directly (such as questions on age and income levels).

The following are examples of questions that can be addressed through secondary research:

- What are the current economic conditions that my business is operating in and are these conditions changing?
 - International, national, provincial and local economic conditions
- What trends are influencing the industry my business operates in?
 - Consumer preferences
 - Technological shifts
 - Prices for goods and services
- Are there international markets for my products or services that could help me to grow my business?
- What are the demographic characteristics of my customers or where do they live?
 - Populations, age groups, income levels, etc.
- What is the state of the labour market?
 - How many people have the skills I require?
 - How much should I expect to pay my employees?

Existing company records such sales invoices, receipts and formal complaints are important secondary resources that businesses can utilize. Often times these records shed light on the same issues businesses seek to address through primary research, and therefore an examination of company records should be done before considering a customer survey or other form of primary research. Some specific examples of using existing company data in market research include:

- Examining sales receipts to find trends in the demand for particular goods and services
- Cross referencing sales receipts with customer addresses or products and services to determine the effectiveness of advertising
- Compiling complaints to determine areas for improvement in customer service, prices or products and services offered

Another key secondary resource is statistical data from official statistics providers and other organizations. These statistics in turn can feed into analytical papers and market profiles that can help to put the numbers in context.

Identifying statistics and analysis that can help you with your business decisions can be difficult, and some datasets are expensive to purchase. There are, however, a number of quality statistics and analytical resources available to you, as well as guidance to help you make sense of all the materials available.

The Research and Statistics section of the Canada Business Network website offers a number of categorized links to data and analytical resources, many of which are free to access. Other sources of secondary research materials include libraries, universities, industry associations and government departments at various levels.