

# 1.8 MARKET RESEARCH



[John's bookshop plan](#)

[Why do market research?](#)

[Descriptive research](#)

[Explanatory research](#)

[Predictive research](#)

[ACTIVITY 15 : John's research needs](#)

[Primary market research](#)

[Questionnaire surveys](#)

[IT based surveys](#)

[Observation](#)

[Focus groups](#)

[Test marketing](#)

[Secondary market research](#)

[Internal data](#)

[External research](#)

[Quantitative and qualitative research](#)

[ACTIVITY 16 : Sheila, Inderjit and Barry](#)

[Sampling methods - who should we talk to?](#)

[Random sampling](#)

[Quota sampling](#)

[Stratified random sampling](#)

[Choosing a sampling method](#)

[ACTIVITY 17 : Vegetarian food](#)

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## 1.8 MARKET RESEARCH

This section looks at the purposes of market research and different ways of carrying out research. It also deals with sampling methods, which is about ways of selecting people to conduct research on. When you are starting a new business, it is no use thinking that your customers will like something just because you like it.

The product you provide needs to be what a sufficient number of customers want. A key purpose of market research is to find out what they want. If businesses exist to profit from satisfying demand, they need to understand the nature of demand in the market. This avoids wasting resources on providing products that will not sell. To illustrate this, have a look at the story of John's bookshop below.

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### John's bookshop plan

Miguel took a gulp of water, put his glass down on the dining table decisively and spoke his mind. He felt awkward about pouring cold water on his friend John's enthusiasm.

"Well, I just wonder if you have done enough market research. Before you rush into investing all your time and money into this business start-up you need to answer some serious questions about the market," he said.

He had been invited round for dinner to look at John's business plan. John wanted to open a bookshop in the small Midlands city where he had lived since he and Miguel left university. In terms of how the shop would be run, what it would look like, and how it would be promoted, the plan was impressively detailed. But there were several big questions that remained unanswered.

After ten years as a marketing manager for a national chain of book stores, Miguel knew how high the failure rate for small independent bookshops was. They were not able to compete with the big chains and their heavy price discounting. Many well established bookshops had disappeared in the last decade. John was keen to open his own bookshop and had some great ideas – but would his energy be sufficient to make the business a success? Miguel felt that John needed to gather information and work out at least three things. Firstly, was setting up a bookshop anywhere such a good idea? Secondly, was there really worthwhile demand for a bookshop here? Thirdly, if there was worthwhile demand, what were local people (rather than John himself) likely to want from a bookshop?

## Why do market research?

Although doing market research is really important, it is also quite difficult. An entrepreneur starting a small business is unlikely to have enormous funds for market research. He or she has to strike a balance.

On the one hand, it may be difficult to justify spending money on research that could be used for setting up the business itself. On the other hand, there may be a danger of rushing into doing something without properly understanding the market and what consumers want.

Market research is not just undertaken at the start-up stage. It is an on-going activity for all businesses, large or small. Market research is about gathering information to describe, explain and predict the nature of demand and supply in relation to a particular market.

### Descriptive research

Firms need to collect and analyse data to identify trends in the market. For example, who has the biggest market share? How big is the market? Did it grow or shrink last year?

### Explanatory research

Being able to describe what is happening in your market is helpful. But being able to explain why something is happening is even more important. For instance, if our typical customer today is different from that of 3 years ago, what has led to this change?

### Predictive research

Being able to describe and explain the market as it stands today leads managers to research what seems likely to happen in the future. Predicting changes in demand is one key to planning ahead. For example, does it seem likely that a market will grow or shrink in size over the next few years? If the market is going to grow, a business will plan to change in response to that growth. If the market is going to shrink, the business needs to work out what the way forward might be.

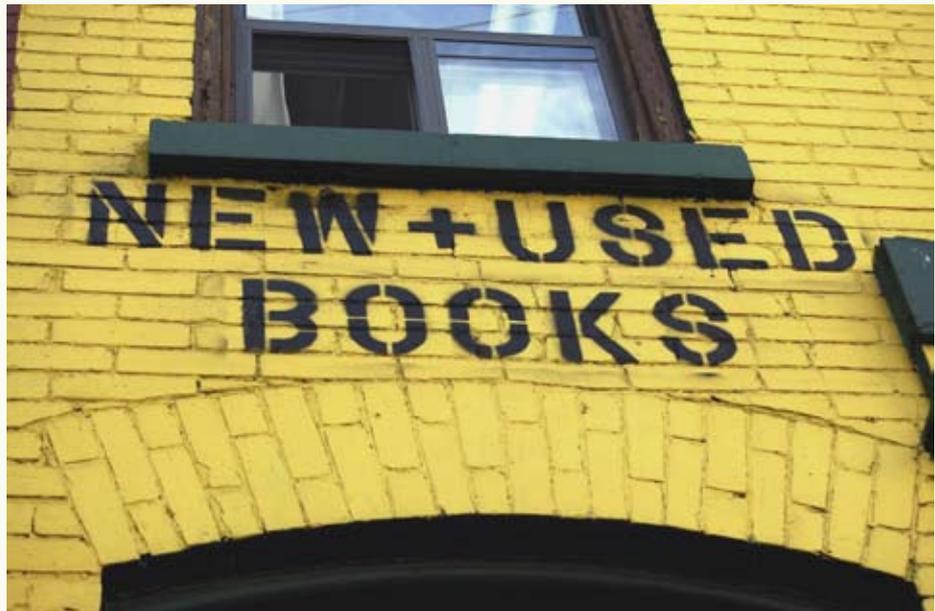
## ACTIVITY 15 : John's research needs

Look at the John's bookshop story at the beginning of this section. Miguel posed three questions that he felt John needed to investigate. The three questions were as follows.

- Firstly, was setting up a bookshop anywhere such a good idea?
- Secondly, was there really worthwhile demand for a bookshop in this location?
- Thirdly, if there was worthwhile demand, what were local people (rather than John himself) likely to want from a bookshop?

### TASK

Bearing in mind these three big questions, identify a few more specific questions that John needs to investigate. State whether your questions require descriptive, explanatory or predictive market research. For example, to answer the first question, John might want to conduct descriptive research on the size of the national market.



## Primary market research

Whatever the purpose of market research, it can be classified in two ways. One classification is about how the data is gathered. Is it primary or secondary research? Primary research is about finding out what you need to know about the market for yourself. Secondary research is about examining information from sources that already exist. The other way of classifying market research is about the type of data obtained. Is it quantitative or qualitative data? Quantitative research is number based. Qualitative research involves exploring attitudes, feelings and opinions.

Primary research involves original research. For example, John might want to know what local people think of other bookshops in his town, before he sets up his own. It is unlikely that he will find this out from any existing publication or report. He will have to communicate with local people and do his own research. (Or pay someone else, such as a market research company, to do it for him.) This primary research will take a lot of time and it may not be easy. Depending on the complexity and depth of information required, primary research will always tend to be more expensive and time consuming than secondary research. The results of this research will give John a rough idea of what local people want from a bookshop, not an exact picture. But the research will be invaluable in guiding him to set up something that might make a profit.

Different kinds of primary market research include:

- Questionnaire surveys
- IT based surveys
- Observation
- Focus groups
- Test marketing

### Questionnaire surveys

A questionnaire is a series of questions aimed at finding out the tastes and views of those surveyed. It is not usually practical to survey all of those who are being researched, (e.g. every person in a town.) So a decision has to be made about choosing a manageable and representative selection or sample for the purposes of the survey. Sampling methods are explained later on.

## 1.8 MARKET RESEARCH

Designing and implementing a questionnaire survey takes considerable skill and preparation. This may be something where professional help from a market research company or some other source is required. Questions must be clear and not point to a particular answer. If a questionnaire is badly worded, the results from the survey will be misleading as respondents will interpret questions incorrectly. A survey where the results are unreliable or biased represents a costly mistake.

### **Face to face questionnaire surveys**

Personal interviews have a number of advantages. Detailed responses can be given by the interviewee, and questions can be explained by the interviewer. However the quality of information obtained from these is partly dependent on the skill of the interviewer, and they can be time consuming,

### **Telephone questionnaire surveys**

Doing questionnaires by telephone enables the research team to cover a big geographical area much more cheaply than face to face interviews. Fairly detailed responses can be obtained. On the other hand, most of the public will only wish to spend a short time on a telephone survey, so the depth of information obtained is less than a face to face interview.

### **Postal questionnaire surveys**

These are usually cheaper per respondent than face to face or telephone surveys. However the response rate is usually very low. Most people will not fill the questionnaire in. Another problem is that in-depth questioning is not really possible as respondents will usually be reluctant to take much time over their answers.

### **IT based surveys**

A company website can ask those visiting it to fill in a questionnaire or require people to provide details about themselves when they set up an account. There are other ways of using new technology to conduct market research, such as devices that record the movement of customers within a store, but these may not be affordable for a new business start up.

## Observation

This is quite often used by retail businesses. Customers are carefully watched. Observation can be used to find out things like how long customers take to choose and which way they tend to move about the shop. The advantage of observation is that a lot of customers can be surveyed in a fairly short time. But observation only describes what customers do; it does not really explain why they do it.

## Focus groups

A focus group is a small number of people who are brought together to discuss particular issues in depth with a researcher. For example, a food manufacturer may use a focus group to look in detail at what customers think of a new product. The group are encouraged to express what they think about the packaging, taste, smell, colour and so on. The focus group members are chosen because they are seen as representative of the customers that are being researched. Because only a handful of people are involved, focus groups can be an inexpensive way of conducting research. But the views of that handful may not accurately reflect the views of the target group of customers as a whole.

## Test marketing

Test marketing is where a new product is tried out on a small segment of the market before a wider launch. Large businesses that have the resources to invest in test marketing can obtain valuable data that can be used to improve the product before a full national launch. Test marketing may not be a viable option for a small business start-up however. The product will probably have to succeed or fail as it stands.

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## Secondary market research

Secondary research is data that already exists. Conducting secondary market research will often be much cheaper than primary research. How useful secondary research is really depends on what you are trying to find out. The big drawback of secondary research is that it sometimes does not really tell you what you need, because it was gathered by someone else for a different purpose. Sometimes you can find out lots of things that are almost what you need, but not one source that tells you exactly what you need. Secondary research may utilise internal or external data.

## Internal data

Once a business has begun trading, information can be obtained from within the business which can be used for market research. Examples of internal data include sales figures, customer feedback and stock movement patterns. The software used in modern, computerised checkouts enables businesses to collect detailed information about sales patterns and trends, including which lines sell best and when. Loyalty cards further enhance the ability of businesses to look at who their customers are and what they seem to like.

## External research

This is information from outside the business. You may have to pay for this, or it may be free. There are many forms of external research which are available for free or at a minimal cost. Here is a list of cheap secondary research.

To get information about competitors, an entrepreneur might look at sources including:

- Yellow pages and other telephone directories
- Special business directories
- The publicity material produced by competitors, including brochures and websites
- To get information about the market in general, an entrepreneur might look at:
  - Trade press (most industries have their own newspaper or magazine)
  - Government publications on demographics such as Regional Trends or Social Trends
  - The EU website Europa ([www.europa.eu/quick-links/businesses/index\\_en.htm](http://www.europa.eu/quick-links/businesses/index_en.htm))

Another example of external research is the detailed reports on specific markets produced by market research companies such as Mintel, and a number of other companies (see [www.mintel.com](http://www.mintel.com)). Unlike government statistics and some other external research, these reports are not free. To gain access to a market research report usually costs hundreds of pounds. However they will provide up to date, reliable and commercially oriented data on market trends. You can buy a detailed analysis of the market for almost any kind of product.

## Quantitative and qualitative research

Another way of thinking about market research is to ask whether quantitative or qualitative research is required. Quantitative research is number based. For example, what percentage of the local population is from social group A or B? What percentage of potential customers have heard of your business?

Techniques to collect quantitative data include questionnaire surveys. The questionnaire will have been designed in a way that makes using statistical analysis easier. Part of this is about asking questions that only have a specific number of possible answers. (These are called closed questions.) Quantitative research tends to be about descriptive research.

Qualitative research, on the other hand, is about explaining attitudes, feelings and opinions. This kind of research is not about working on numbers and percentages. Qualitative research is generally about investigating why. In other words, it is focused on explanatory research. Focus groups are one way of gaining qualitative data. If you are a baker and you really want to get to the bottom of what customers think of the taste of your cakes you are more likely to get a focus group together than do a questionnaire survey on hundreds of people.

## ACTIVITY 16 : Sheila, Inderjit and Barry

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### TASK

For each of the business start-ups below suggest what primary and/or secondary research methods might be best. Explain your answers.

1. Sheila Jones, a skilled potter, has been working on a range of teapots in the shape of the heads of famous politicians (Kennedy, Gandhi, Lenin, etc.) After selling a lot of these teapots from her little workshop at a craft centre, she now plans to work with a small manufacturer to sell her designs across the UK. Sheila wants to find out where most consumers buy teapots from.
2. Inderjit Singh currently runs a small business providing IT training. He lives and works in London. He wants to diversify by setting up a new website design business to specialise in primary and secondary school websites. Inderjit wants to find out how many London schools have websites and whether they are happy with them.

Barry Black is investigating the possibility of starting a no-frills, budget guest house in Chester, primarily aimed at walkers and cyclists. Barry wants to find out how many walkers and cyclists travel through Chester every year and how much they typically spend on accommodation.

## Sampling methods - who should we talk to?

Deciding to do market research is one thing. But how should a sample be selected? Imagine that Barry Black (see Activity 16) decides to conduct a telephone questionnaire survey of walkers and cyclists. Researchers would label this group of people as the target population.

As mentioned earlier, carrying out a survey of every single potential customer might well be unrealistic. There are probably hundreds of thousands, if not millions, of people who are keen walkers or cyclists in the UK. So he would need to survey a smaller group. Imagine he decides to survey a sample of 500 people. The trouble is, can we assume that the views of the sample will be representative – will they accurately mirror the view of the target population? How can Barry find 500 people who are average walkers or cyclists?

Perhaps Barry needs to work out exactly what his market segments are. He might then decide how to choose his sample, taking care to get the right numerical balance between different segments. For example, suppose that Barry finds 60% of cyclists are under the age of 60. Barry therefore needs to make sure that 60% of his sample of 500 is under 60. This is called trying to make the sample representative.

There is also a need to minimise the risk of bias. For example, if some of those surveyed know Barry, will they answer questions honestly or will they tell Barry what they think he wants to hear? To help reduce these kinds of problem, there are various established methods for choosing a sample.

### Random sampling

A random sample is one where everyone in the target population has an equal chance of being selected for the sample. This helps to reduce the possibility of unintentional bias. This may be achieved by, for example, taking a list of addresses and selecting every hundredth or thousandth house on the list.

A true random sample is difficult to achieve. In many cases samples that appear to be random may not actually give everyone in the target population an equal chance of selection. For example, let us suppose a telephone questionnaire survey is carried out by telephoning randomly selected people at home between 9 am and 5pm. This means that only certain sorts of people are likely to be surveyed (mainly the retired and the unemployed). Depending on the research aims and objectives, this may be significant.

## Quota sampling

Quota sampling is used for questionnaire surveys. Each interviewer is told to ask preliminary questions to identify whether someone falls into a specific group. The research designer will have set quotas for interviewers. When the quota has been filled, the sample will reflect the make up of the overall population.

For example, suppose a town department store knew that 60% of its customers live in the town and 40% in surrounding villages. A sample of 500 people might contain quotas of 300 town residents and 200 people from villages. Interviewers stand in the store and stop inviting people to complete the questionnaire when the quotas have been met.

This method of sampling can only be used if key information about the population is available. Moreover, the use of quota sampling does not really lead to the selection of a random sample. For example, different sorts of people will be in the store after 5pm than at 3pm on a weekday. If the quota is met before 5pm this could cause the survey results to be unrepresentative.

## Stratified random sampling

Stratified random sampling also requires an understanding of how the target population divides into different categories. The sample is divided up into categories, using this previous knowledge. Each category is called a stratum- hence the term “stratified”; it is a bit like layers of rock.) For example, suppose we know that the population can be divided into specific income groups and how many people there are in each group.

A random sample is then chosen from each stratum. The sample selected contains the same proportions of people from each stratum as the target population. The sample might be stratified in several different ways. So we might select people for each social income group at random but on the basis of an appropriate numerical balance by gender and age. The overall idea is to come up with a sample that is a microcosm of the target population.

To illustrate how stratified sampling works, suppose that a garage has worked out figures on the age of cars that come into the workshops for service, using its customer database. (See the table below.) The garage feels that it is important that a particular survey uses a sample that reflects these data. A sample would have a split that reflected the right balance between these different strata. The garage

## 1.8 MARKET RESEARCH

decides that a sample of 200 drawn from its customer list of 1000 will be used. If we look at the sample purely in relation to age of vehicle, this is what it would be like:

AGE OF CUSTOMER'S CAR	% OF 1000 CUSTOMERS	SAMPLE
Under 5 years old	50%	100
5-10 years old	30%	60
Over 10 years old	20%	40

Table: A sample of 200 customers from a garage stratified by age of vehicle.

To come up with even more representative survey results, it may be possible to select people using other criteria as well. For instance, is the vehicle privately owned or a company car?

Stratified random sampling will generally offer a more genuinely representative sample than the other two methods. However, it may be more complicated to set up, because of the need for previous knowledge of the population. The garage used in the illustration is easily able to obtain the necessary prior knowledge from its database. Other firms may find it hard to obtain the prior knowledge they need to get their stratified sample right.

### Choosing a sampling method

Which sampling method is used depends on the sort of market the business is in, the amount of money it has for research and what the research objectives are. There are a number of questions that can be asked to help decide which sampling method might be best.

How easily can the business identify market segments? If a business can get a clear understanding of the different sorts of customers it has, stratified sampling is more likely to be used. If the firm cannot obtain that understanding, random sampling is the only option. It is pointless trying to create a stratified sample if you do not really know what the strata are.

How big is the budget for market research? A start-up business will usually have a relatively limited budget for market research. This points to random sampling as there is no need to spend time figuring out how a stratified sample can be arrived at.

## 1.8 MARKET RESEARCH

Do different customers have different buying behaviour? Knowing what your market segments are is one thing, but it may be that a business feels that the differences between customers are insufficient to justify the cost of stratified sampling.

On the other hand, if the business suspects that there are important differences between different segments, the business will be more inclined to want stratified sampling, so that it can gather data on these differences.

Now go to Activity 15 on the next page.

## ACTIVITY 17 : Vegetarian food

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Czarina Ying has 10 years experience as a chef in a well known and expensive restaurant in Manchester. She and her sister May, who is currently a sales manager in a medium sized food manufacturing company, are planning to set up their own company next year. They are looking to manufacture a range of ready-made vegetarian dishes that would be sold in shops. The sisters have set aside some money for market research.

May has bought a Mintel report on attitudes towards eating meat in the UK. This suggests at least three different groups of people who are wholly or partly vegetarian.

A small group of people are strict vegetarians, usually because of their principles. This group represents well under 5% of the population.

“Meat avoiders” are not strict vegetarian but are worried about the animal welfare issues associated with intensive farming and so avoid meat. Mintel says that this is about 10% of consumers.

“Meat reducers” are seeking to reduce their intake of meat, for a variety of reasons. Two particular reasons are health and because of environmental concerns. (The methane produced by livestock worldwide makes a big contribution to global warming.) Mintel has identified 23% of the population as meat reducers. This market segment is steadily increasing in size.

### TASKS

1. How does the Mintel report illustrate the idea of psychographic segmentation? (4)
2. Explain the advantages and disadvantages of secondary research, using Czarina and May’s business to illustrate your answer. (4)
3. Assuming that one part of the research plan is a postal survey of food retailers, advise Czarina and May on an appropriate sampling method. Explain your answer fully. (8)
4. Evaluate the best way for Czarina and May to do primary research into whether people like their products prior to national launch. (10)