

Market Research for a Start-up



Introduction

You have the business idea, or perhaps you have narrowed the choice down to a few business ideas. □ You may know which market your new business wishes to enter. □ So what happens next?

The answer is **market research**. □ For a start-up, this is a crucial activity. □ Understanding the target marketplace in as much detail as possible (given time and cost constraints) comes before raising money, choosing a location or putting together a business plan.

Market research is particularly important if a start-up needs to raise finance. □ A new business will find it very hard to raise finance if it cannot demonstrate that it understands the structure of the target market and that it has a clear idea of how the product it intends to offer will be positioned in the market.

A good way to think about the market research process is to remember that it involves two parts:

- (1) What a start-up business needs to know
- (2) How that knowledge and understanding can be obtained (research methods)

What a Start-up Business Needs to Know

Market fundamentals

The starting point for market research is to identify the market fundamentals:

- ? How big is the market? (measured by sales, volume etc)
- ? How fast is the market growing and what is the market growth potential?

- ? Who are the existing competitors and what market shares do they have?
- ? How is the market segmented? (□ segments □ are the different parts of a larger market □ e.g. low price or high quality)
- ? What kind of customers are there in the market? □ What are their preferences in terms of when and where they buy, what prices they pay and which methods of promotion are effective?

Finding a niche

The purpose of market research for a start-up is to find a position in a **niche market** that will enable the business to charge a reasonable price and to earn reasonable profits once the business has been set-up and established.

Why should start-ups aim for a market niche? □ Because surviving in high volume or **mass-market** segments is rarely possible for a start-up. □ The largest market segments are normally dominated by well-established businesses that enjoy lower costs and can charge low prices. □ In other words, a start-up will face stiff competition from much stronger competitors if it tries to set-up in a mass market.

An entrepreneur needs to be satisfied that there is likely to be a demand for the product or service. □ However, at the start-up stage, funds are often limited and a new, small business is constrained by how much research can actually be carried out.

Effective market research is not about getting hold of lots of statistics or detailed reports. It is about getting the details and insights that help plan an effective business strategy. Remember that a small business can learn much about the market by simply trading, talking to customers and suppliers on a day-to-day basis etc.

An important distinction can be made between two broad kinds of market research data:

Primary data: data collected first-hand for a specific purpose by the entrepreneur

Secondary data: data that already exists and which has been collected for a different purpose.

For a start-up, it is most likely that secondary research will be the main source of market research. □ This is because it is less costly and quicker & easier to obtain. □ Gaps in knowledge might be filled with some primary research.

Secondary Data

Once a business starts trading, it quickly develops data that can help it understand the market. □ Sales reports, financial data, customer feedback and other information are really useful sources of insights into a market and how the products of a business are performing. □ This kind of data is called □ internal □ data □ i.e. information that comes from within the business.

The problem for a start-up is that this internal research data does not exist □ it needs to start trading before the data is created! □ So the start-up entrepreneur has to rely mainly on external secondary data □ information that is available from sources outside of the business.

There is a wide variety of external secondary sources, many of which are free. □ □ Here are some examples of cost-effective and useful external secondary research:

Google	The essential starting point for any secondary market research! □ □ Effective searching on Google quickly identifies the main reports, websites and organisations that can speed up the research process.
Government sources	Office of National Statistics provide detailed insights on the UK economy and society; individual departments provide detailed reports

	on many industry sectors
Trade associations	Most industries have one or more industry associations which exist to promote the market and protect member interests. □ They are a great source of market analysis
Trade press & magazines	Essential reading for an entrepreneur, particularly if the start-up is in a market in which the founder has little or no experience. □ A great way of keeping up-to-date with market news, new products etc
Directories	Online and offline, there are many excellent directories of existing competitors and suppliers in a market.
Price-comparison websites	Made possible by the Internet, the rapid growth of price-comparison sites allows a start-up to compare and contrast pricing strategies of existing competitors. □ Note these tend to focus on larger consumer markets (e.g. insurance, travel, retail) rather than industrial markets.
Competition websites, marketing materials, price lists	Also essential reading before launching a start-up. □ The entrepreneur gets valuable information on the marketing mix (product, price, promotion and distribution) of the businesses against which the start-up must compete.
Market research reports	Organisations such as Mintel, Keynote and others produce a wide variety of reports that analyse individual markets. □ Often expensive (typically □500 each), these reports are best for giving an overview rather than detailed insights into a specific market.

By its nature, secondary research will vary in terms of its usefulness to a start-up □ after all, it has been created for a different purpose, it may be out-of-date and it may be subject to bias. □ It may also not quite be in the right format or focused on the right target market.

However, secondary research has many advantages to a start-up:

- ? The information is readily available (particularly online) □ so research can be done right now!
- ? It is generally cheaper than primary research; in many cases it is free
- ? Good secondary research provides an excellent overview of a target market

□

Primary Research

In most cases, a start-up will still have gaps in its understanding of a market even after looking at the available secondary data. □ Primary research is usually used by a new business to fill these gaps □ as far as is possible given the time and funding available.

It is best to think of primary research as the way that the entrepreneur gets answers to the important questions that need answers before trading begins. □ For example:

- ? What do potential customers think of my new product or service?
- ? How can I obtain supplies of the right goods at the best price?
- ? What price should I charge?
- ? What is the best way of reaching potential customers (e.g. e-commerce, retail, direct mail)

The problem with primary research is that it is usually time-consuming and expensive.□ Getting a market research agency to conduct primary research is one option, but the costs are high and the entrepreneur must wait for the results.□ Accordingly, most primary research by a start-up is conducted by the entrepreneur, often in an informal way.

There are various methods of primary research, each with their own advantages and disadvantages:

Method	Comments
Observation	Watching how consumers behave provides many insights, but can leave many questions unanswered.□□ Observation works well for in retail markets; sit outside a shop and watch how many people walk by, look at the window display etc. Observation is a good way of assessing how products are packaged, displayed.□ However, observation will not, by itself, explain why consumers are doing what they do!
Surveys The use of survey questionnaires is a popular way of generating primary data.□ The questionnaire poses a series of questions about a product or service and also requests details about the person completing the survey so that responses can be profiled and grouped. There are various survey methods, the most popular of which are:	
Postal surveys	Sent to the address of potential customers who complete the form and send back in a pre-paid envelope. A relatively cheap method, a postal survey can cover a wide geographical area and avoids the potential for interviewer bias.□ However, response rates (the proportion of people sending back a completed survey) are often very low and it can take many weeks before an acceptable number of surveys are returned.
Telephone interviews	Not to be confused with □telesales□ (which is a method of selling), the telephone interview allows quicker feedback than a postal survey.□ However, potential customers are often wary of being called and may be reluctant to give anything other than short answers.
Online surveys	Increasingly popular and relatively low cost, online surveys are now widely used by small businesses as a way of capturing the views of existing and potential customers.□ Online surveys are suitable for a start-up in the pre-trading period; they can be set-up for very low cost and can be updated frequently generating high quality, topical data.
Face-to-face surveys	Personal interviews conducted face-to-face.□ Good for getting detailed insights from an individual and the interviewer can probe answers more closely to improve the insights gained. However, face-to-face surveys can be influenced by interviewer bias, the respondent may be giving the answers he/she thinks are wanted, and the method is time-consuming and costly.
Experiments	Similar to test marketing, experiments allow a business to discover how customers respond to different product options (e.g. different packaging, pricing, promotional offers). In the start-up phase, experimenting with these variables can generate very useful customer insights without going to the expense of a full product launch.□ Experiments are particularly useful for products or services sold online □ where prices and other marketing messages can be

	changed quickly.
Focus groups	Groups of potential customers are brought together to discuss their feelings about a product or market. Focus groups are a good way of getting detailed information about customer tastes and preferences. Assuming that the members of the group are representative of the target customer base, a focus group can provide useful insights into how a new product will be received in the market. They are effectively for testing various elements of the marketing mix □ e.g. packaging, branding and price.
Test marketing	This involves selling a new product in a restricted section of the market in order to assess customer reaction. □ For example, a start-up could start by selling to a limited local area in order to iron-out product issues. □ Software firms often test-market their products by offering □ beta □ versions for testing by a small group of potential customers. Test marketing can be a good predictor of how a new product or service will be received by the larger market. □ However there is a danger that the impact of the full launch of a new product will be diminished, particularly if competitors find out about the test!

Given the range of primary research methods available, which ones are best for start-ups? □ The answer is □ it depends! □ When answering exam questions in this area, you should remember that the start-up is likely to be restricted in terms of finance and time. □ The best primary research for a start-up is likely to be research that is low-cost and timely and which fills the gaps in market knowledge that are not covered by secondary research.

Quantitative and qualitative research

The distinction between primary and secondary research is really about the different **sources** of market information. □ An alternative way of thinking about market research is to consider the two main **approaches** □ qualitative and quantitative. Market research can be classified into two kinds of information:

Qualitative research

Qualitative research is based on opinions, attitudes, beliefs and intentions. □ This kind of research deals with questions such as □ why □? □ Would □, or □ how □?

Qualitative research aims to understand why customers behave in a certain way or how they may respond to a new product or service. □ Given that these opinions are often obtained from small numbers of people, the findings are not necessarily statistically valid. □ However, such data can highlight potential issues which can be explored in quantitative research.

Focus groups and interviews are common methods used to collect qualitative data. This kind of data is often revealing and useful, but it is more costly and time-consuming to collect, particularly for a start-up.

Quantitative research

This is research based on larger samples and is, therefore, more statistically valid. Quantitative research is concerned with data and addresses question such as □ how many □, □ how often □, □ who □, □ when □ and □ where □?

The results of quantitative research will generally be numerical form □ for example:

- ? 35% of customers rate the new product as □ attractive □
- ? 70% of potential customers use the Internet to buy their hotel accommodation in Dorset

? 3 out of 5 customers will buy a new food product after being offered a free in-store sample

The main methods of obtaining quantitative data are the various forms of survey □ i.e. telephone, postal, face-to-face and online.

Sampling

Sampling is a particularly important concept when undertaking primary market research.

Market research is aimed at understanding a market as a whole. □ However it is rarely possible to get the views of all customers, or speak to all suppliers. □ Research therefore relies on taking a sample and trusting that the findings from a sample are representative of the market population as a whole.

In market research, a **sample** is a group of people that is intended to represent the overall target population.

Primary market research is undertaken by **sampling** the views of a selection of customers. □ The sample size is simply the number of people in the sample.

What should the sample size be? □ Remember that in BUSS1 we are concerned with small businesses, so cost and time is an issue. □ There is a trade-off (choice) to be made between cost and accuracy. □ Large sample sizes increase the reliability of the research, however lower sample sizes reduce the cost of the research. It all depends on what the entrepreneur needs to know!

The degree to which the results from a sample are a reliable predictor of the overall market is known as the confidence level. □ For example, a confidence level of 90% means that the results of the research will be right nine times out of ten.

Choosing a sampling method

There are three main methods that are used to choose a sample in market research:

Random sample	<p>A random sample gives each member of a population an equal chance of being chosen. □ □ For example, a random number generator may select contact details from a spreadsheet; a researcher may stop and talk to every 20th person who passes outside a shop.</p> <p>The main advantage of this is that bias is not introduced when the sample is chosen. However, a random sample also assumes that all members of the population are the same, which is rarely the case!</p> <p>The main drawback of random sampling for a start-up is the cost of the required sample size. □ Random sampling needs large sample sizes in order to achieve acceptable confidence levels.</p>
Quota sample	<p>Quota sampling involves the population being segmented (broken up) into groups that share specific characteristics. □ The research then focuses on a specific sample size (quota) chosen for each group.</p> <p>For example, the quota might be for the research to interview 25 A Level students and 75 GCSE students from a secondary school, or the quota may state that 60% of those surveyed must be women aged 45-55.</p> <p>Quota sampling can help market research focus more closely on the target customers or market segments. □ However, it takes more time than random sampling and is the sampling method most likely to result</p>

	in bias.
Stratified sample	<p>Stratified samples are used when the research wants to provide insights into specific market segments or customer groups. Once the target group is selected the sample is chosen at random from that group.</p> <p>A stratified sample still has the benefit of being random (i.e. low bias) and is not as expensive or difficult to obtain as a full random sample.</p>

Given the range of sampling methods available, which should a start-up or small business use?

The main factors affecting the choice of sampling method are:

Finance and cost	This is perhaps the most important consideration. Start-ups are unlikely to be able to afford substantial market research. Market research in the early stages of a new business is likely to be low cost, or even better, free!
Type of product	If the start-up is looking to provide an existing product or service, then it is likely that there will be substantial secondary research already available. By contrast, a new product is less likely to have secondary data available
Level of risk	The newer the product and the greater the investment prior to launch <input type="checkbox"/> the greater the risk. <input type="checkbox"/> If the start-up is investing significantly upfront and there is a high chance of failure, this increases the need for effective primary research. <input type="checkbox"/> In such a situation, there is a case for choosing a random sample, backed up by additional quota or stratified samples.
Target market	If the start-up's product is targeted at a specific segment (e.g. geographical, age, income) then it becomes easier to target primary research. <input type="checkbox"/> If the business can identify the target customers, then it is usually more appropriate to conduct research using a stratified sample.

Exam tips

BUSS1 focuses on small businesses that do not have the resources to invest in substantial market research. ☐ Research that is undertaken by a start-up should be closely focused and ideally low-cost.

You need to make sure that you are able to state concisely the advantages and disadvantages of the different kinds of market research.

You should also question the data that is provided about market research in BUSS1. ☐ Was the sample size large enough? Is it out-of-date? ☐ How relevant is it to the target market and customers?

The best market research insights for a start-up often come simply from trading, talking to customers and suppliers, observing what happens with a product launch etc.

Guided revision questions

Revision questions for Market Research for a Start-up

- (1) Define the term ☐ market research ☐ (2 marks)
- (2) Distinguish between primary and secondary research (4 marks)
- (3) List four probable sources of secondary research for a new e-commerce business targeting the women's fashion market (4 marks)
- (4) List three possible sources of primary market research that could help an entrepreneur estimate the likely demand for a local gardening services business (4 marks)
- (5) Explain why samples are used in primary market research (4 marks)
- (6) Briefly explain stratified sampling (3 marks)
- (7) List three factors that a start-up business should consider before conducting a survey (3 marks)
- (8) Outline three reasons why market research information might prove inaccurate (6 marks)
- (9) List two advantages and disadvantages of using large sample sizes in primary market research (4 marks)
- (10) Explain why businesses increasingly use online surveys as a source of market research (4 marks)
- (11) Describe the difference between quantitative and qualitative research (4 marks)
- (12) A hotel wants to measure customer satisfaction with their stay. ☐ Which would be the most appropriate approach ☐ quantitative or qualitative research? (4 marks)