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Market research - introduction

Market research is the process by which a business owner gets to know their market. It involves the collection and careful assessment of information relating to the markets for the business' goods or services and is a critical part of the strategy for arriving at a well prepared marketing plan and business plan.

Obviously if you are to succeed in your business, you must get to know your market thoroughly. Market research carried out properly will therefore provide information about your customers, your competitors, your industry, and the problems involved in the marketplace, demographics and the future of the industry

What does it provide?

Market research will provide the following things:

- Identifying your customers.
- Understanding the strategies that are necessary to increase or retain customers.
- Obtaining information about your industry in general.
- Finding out about your possible competitors.
- Defining your target market by characteristics such as age, gender, economic status, lifestyle and other factors.
- Determining the future of the industry so that you can make calculations as to its feasibility.
- Providing valuable feedback information in order for promotion plans to be put in place that works.
- Giving you an indication of changes that are needed to increase the demand for your products.
- Evaluating the effectiveness of any advertising carried out by you.
- Revealing current and future trends.

Market research helps to provide answers to questions such as:

- Who buys your products?
- What are they willing to pay for it?
- What is the best way of reaching them?
- What changes do they want in your product or service?
- What type of person in the sense of age or gender buys your product?
- Is there sufficient demand for your product to make the business viable?



Where does the research come from?

Information for market research can come from a number of sources, or, if you are looking at doing it yourself, then you can also investigate a number of avenues. If you are not using professional market research firms, then the following options are examples open to you if you are wishing to carry out research without costing a lot of money:

1. Go directly to your customers

You can send out questionnaires, carry out telemarketing, or conduct surveys to your customers and potential customers. You can go direct by organising presentations or setting up a seminar and inviting potential customers to attend. This method can be quite costly and time consuming, so it is usually one that a small business with a limited budget will avoid.

2. Employ young people and students

A lower cost option is to employ students and young people who can carry out surveys, either in shopping malls or on the street, sometimes as part of a project that the university or the college can get involved in. It is good experience for the young people and the payment, though small, is more than welcome. At the same time the business is able to obtain research information at a lower cost.

3. Discuss with associations

Sometimes the industry that your business is in has a trade or professional association. These associations regularly have information on the market and are happy to give any assistance to their members. They may have already carried out surveys in the past and are also much closer to the ground as far as trends and future opportunities are concerned.

The Department of State Development's Business Resource Centre can also provide you with information designed to help you analyse the viability of your business idea and develop your business plan.

Aims of market research

Some market research may be necessary to determine what goods and services customers are likely to buy and how many buyers are estimated to exist in your area etc. Large companies employ research consultants to carry out this function but many small business operators sometimes find they can't afford the costs involved. However, there are a number of free or low cost ways in which a small business owner can carry out research.

Remember that market research aims to discover the following things:

- What goods and services people are likely to buy?
- Where, when and how often they are likely to buy?
- What sort of people buy what sort of goods and services?
- How products should look, feel, taste etc?
- How many potential customers exist (in the area in question)?
- How sample groups in that area react to your advertising ideas?



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While "do it yourself" market research is much better than none at all, it is often not as effective as research carried out professionally. If you decide to carry out research professionally, make sure that you choose a reputable firm with expertise and credibility in this field.

Researching your own product

One of the ways in which research companies produce results is to assemble focus/reference group - a representative group of around 10 people from the market - and get them to talk about the type of product or service that you are offering, as well as others on the market.

The purpose is to learn more about the attitudes people have, so you can plan better. There is nothing to stop you doing the same, so long as those chosen talk about your product are representative of your customers. Get together fifteen people and quickly interview them separately to see what they have to say. Listen carefully for the following things:

- What is special about your product or service?
- What are its weaknesses compared to the competition?
- What do people use your product for?
- Why do people think they need or do not need that type of product or service?
- What makes people think the way they do?
- Don't forget you are dealing with a small number, but this number can give you a bit of an idea as to the attitude that is most common out there.

Assessing the facts

What does it all mean? You must assess the facts about your market. First, decide how much weight should be given to the various pieces of information you have gathered. The questions you need to ask are:

- How up-to-date is the information? Is the market changing so quickly that some facts can no longer be relied upon?
- How reliable is the source? Is the information objective and factual, or has the author got an axe to grind?
- Who asked for the information? If it came from a representative group of people, how large was that group compared to the number of people who could have been contacted?
- Does the introduction to any survey mention deficiencies or statistical errors in the work? Very few surveys are free of these and knowing about them will help you to analyse the information.
- How was the information collected? Were the interviewers trained people and could the questions and questionnaires be misinterpreted?
- Does the information cover your area of interest precisely? For instance, if you want to sell cakes, does it cover the market for cake or for the whole of the bread industry?
- Is the geographical area covered the same as your own market?

Making judgements about the market is the hardest part of the exercise. If you have been lucky, the information will be easy to arrange and solutions will be clear. If they are not, then it is recommended that you talk the problem over with your accountant or your other advisers before you turn the research into action.



Estimating market demand

The market demand for a given type of product is the total quantity of that product which is sold in the area under consideration. For many products, particularly components, estimating market demand is not straightforward. In some cases data is not collected, either by the Australian Bureau of Statistics (ABS) or by market research companies.

A publisher, for example, who wants to estimate total market demand for an Indonesian cookbook will (unless the firm has previously published a similar title) find it difficult to make an estimate from book sales statistics, which are not usually classified by the subject of the book. Using statistics is a matter of defining clearly what you want to know and relating available data to what you need to know.

Generally speaking, you can get a rough idea of the size of the market for a given product by adding together imports and local production figures. The ABS releases regular figures on exports and imports and publishes monthly bulletins on local production of numerous commodities.

Market share

Your market share is determined by the perceived desirability of your product compared with that of your competitors and product promotion. Most manufacturers know only too well who their competitors are. By knowing the approximate total size of a given market, it is possible to work out the share of the market your firm is holding.

For example, if you are a manufacturer of ladies' leather handbags, using Bureau of Statistics figures for sales of leather handbags produced in Australia, plus the value for duty of imports, it is possible to arrive at a figure for the approximate size (in dollar terms) of the market. By dividing that figure by your annual sales turnover, your market share will be arrived at. If you use these figures for three successive years, a "market share table" can be constructed.

You can then ask the question, "Why is my market share what it is"? To do this, you must investigate your selling position compared to that of your competitors. Your selling position is defined by how your customers see your company, your product and the service you offer. There are many ways of gauging what your customers think of you. Your sales figures are the most obvious source of feedback, but you can also find out a lot by asking friends, associates and your customers themselves.

Pitfalls in market research

The problem for the small business owner is that, properly done, most market research is quite expensive and takes time because it requires professional expertise. Getting together all the necessary data to reduce the risk to your venture may cost so much and take so long that you may go out of business in the meantime. The answer is to find a quick and inexpensive way of getting enough information to help you make the right decisions most of the time.



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Some obvious pitfalls are:

- Where the products sampled do not correctly represent the total market.
- Where the wrong questions are asked.
- Where bias is allowed to come into the research and distort the reliability of information.
- Allowing arrogance or hostility to cut off communication during the process.
- Not listening and doing anything about the responses.

If you have a limited amount of money to use, develop the skills to hear what your customers and potential customers are saying to you.

Further information

The following fact sheets provide further information on these issues:

- Benchmarking
- Business growth tips
- Market research – advanced
- Marketing plan