The importance of market research

*Market research is essential for the survival and growth of your business. It enables you to improve the competitive nature of your business and reduce your risks. This guide outlines the different types of market research and offers some tips on how you can conduct your own effective market research.*

Far too many businesses embark on projects or ventures without proper market research. All too often a business failure is said to be the result of ‘poor market research’. Good entrepreneurs are in fact risk minimisers rather than risk takers, and market research is the primary tool that enables you to reduce risks.

**Why conduct market research?**

If you’re planning to **start a business**, or looking for finance, then the people you approach for help will want to see some evidence of market research. Starting a business always involves some degree of risk; good market research will help you reduce that risk.

If you are **already in business**, market research continues to be very important, and should be an integral part of your daily business operation.

Market research allows you to identify threats and opportunities in the market place and provides the information on which you can make informed decisions. The more accurate the information - the better the decision. Market research therefore reduces the risk involved in making these decisions. It also reduces the risk of not being able to make decisions because you did not have the information at hand (for example, a change in the market that catches you by surprise).

Market research helps you to:

- Identify new products or services
- Spot or anticipate market trends or changes
- Determine if customers are satisfied, and if not, what is wrong
- Keep one step ahead of your competitors
- Spot trends or warning signals in your own business
- Decide which advertising medium works best for your business
- Keep up to date with new technology in your industry
- Tell you if a new idea is likely to be viable or not, and so on.

Market research is therefore the business tool that helps you reduce the risk that a new idea will fail, and helps reduce the risk of being in business. In short, it helps you both stay in business and build a more profitable business. However, in most businesses very little research is conducted. This is because people are unsure how to perform such market
research properly.

**What is market research?**

In its basic form, market research is simply an information gathering exercise to determine the viability of something. For example, if you have a business plan in mind, it could be the viability of the business - that is, determining the size of the market and asking: “Is there enough customers for me?”

Rather than making decisions based on just your own ‘gut feeling’, market research leads to more informed and therefore better decision making. The good news is that it’s usually perfectly possible to conduct your own market research. In fact, if you’re already in a small business, you’re inevitably undertaking some informal market research. When you talk to customers, or listen to the radio, or TV, or read magazines and newspapers, this is all research. All good entrepreneurs are constantly listening to the sounds of the marketplace. Some do it automatically; others learn how to do it as they proceed.

**Types of market research**

Market research is usually categorised into two kinds: **primary** research and **secondary** research. In turn, the information you gather is of two types: **qualitative** market research information comes from actually talking to people, asking for feedback and/or opinions, while **quantitative** information comes from compiling figures and numbers in the form of meaningful charts, statistics, graphs and tables.

**Primary research**

Whenever you talk to customers or competitors, you’re collecting primary market research information. In most cases this will be in the form of **qualitative** information. This is usually the most valuable market research information for your business.

**Secondary research**

This involves research conducted by other people or organisations, but whose results you may be able to use yourself. It may not be as accurate as primary research as it wasn’t carried out with your specific problem in mind. However, it can be a cost effective way of gathering information about the marketplace and general trends in your industry.

Sources of secondary research include:

- Libraries
- Yellow Pages
- Internet search engines
- Trade or industry organisations
- Research results published in the media
- Chambers of Commerce
- City or regional councils
Three further categories of research information are useful:

1. **Specific market research**

   This involves designing research to answer a specific problem. For example, your question might be: "How much are people going to pay for this product or service?" or "How big a market can we expect for this new product?"

2. **Marketing information systems**

   These are the internal systems you have in place (or create) in the course of dealing with customers and suppliers to capture key information. You can then use this internal data to research specific questions. For example, analysing your own sales records to answer the question: "What is the average value of a sale?"

   **One of the keys to good market research is to create effective internal marketing information systems.** This means giving some thought to the kind of information you will need to improve your marketing, and then designing systems that allow you to retrieve this information. For example, creating a database of customer details that enables you to sort the information in many different ways. You might want to know where most of your customers live, what products or services are most popular, or who are your top customers. It is important to note, information should only be collected if it is relevant for the provision of your goods or services. If in doubt, seek professional advice.

3. **General market intelligence**

   This covers on-going research that you pick up from the news, customers, books, magazines, competitors, friends, etc. For example, the newspaper adverts your competitors run might give you a good idea of prices in your industry. Everyone in business conducts market research informally every day - often without realising it. It happens each time you talk to a customer, each time you read the newspaper, each time you listen to an employee discuss a problem, and each time you suddenly get that ‘great idea’.

**How to get more out of market research**

Market research becomes more skilful and therefore far more useful to you when you’re more conscious of what you’re trying to find out - and why. The key is to be able to identify what you should be collecting and then design methods to do this.

You and your staff can conduct a lot of market research yourselves in the course of running a business. Some thought given to the kinds of information you capture from customers (both written and oral) is one part. Another is getting more out of the daily process of
interaction by formalising this often unconscious process.

For example:

- Encourage your staff to become more aware of this information gathering process and how it can be used to improve the business
- Train them to ask customers specific questions (for example, “What other products or services could we stock to meet your needs?” or: “Would longer opening hours be of interest to you?”
- Ask staff to keep a record of interesting snippets and responses so that this information is not forgotten
- Hold regular meetings specifically to exchange market research information you have all gathered and to work out smarter ways of gathering more. If staff know that these meetings are coming up, they will be more likely to take the process seriously and come to the table with something useful
- Discuss at these meetings what improvements you could make to the business in the light of the information gathered
- Make them aware of any business changes or improvements you do put in place and give people recognition for good ideas or research gathered
- Put specific staff members in charge of certain market research areas. For example, assign one person with strong computer skills to Internet research (such as competitor’s websites, or spotting trends and developments in your industry) and another person who enjoys reading to keep a scrapbook of competitor newspaper ads and useful articles in industry journals
- Allocate funds for market research in your budget. The average business spends less than 1% of its turnover on market research, but set your own budget by considering how important market research is to the ongoing viability and growth of your business and what resources you need to get the appropriate information.

Management by wandering about

Finally, you can always do more conscious market research yourself, such as ‘management by wandering around.’ The founder of Wal Mart, Sam Walton, was famous for the time he spent wandering around his stores, talking to employees and customers, riding with delivery truck drivers, and generally absorbing market research information that he could never have gathered by insulating himself in his office. The example of the way he used this ‘coalface’ information to build and fine tune one of the largest and most successful chain of stores in the United States is one that all business people can learn from.