

# THE PURPOSE OF MARKET RESEARCH

Satisfying customer needs is the key to success. One of the key reasons for carrying out market research is to find out information about what customers want. It will also give a business an insight into the market itself and any potential competitors.

Entrepreneurs should carry out market research before they start their own product development. They can also continue their research throughout the development period to assess the response to ideas, prototypes and different design choices.

## Purpose of market research

### To reduce risk

Market research can help establish whether there will be sufficient **demand** for a product. Without finding out this information, a business may produce and sell a product that nobody wants.

### To understand the market

Market research will include finding out about the size of a **potential market** or opportunity in terms of value, customer numbers, the products or services available from competitors and how they are received by existing customers.

### To aid decision making

Gathering information on customers, **market trends** and competitors will allow a business to gain a better understanding as to what products to sell, how it should promote them, where it should sell them and at what price.

### To inform product development

Early prototypes of a product may be trialled with select groups of customers to get their feedback. This may inform further development to perfect the product and ensure it best meets customer needs. This reduces the risk of developing a product that is rejected by the market.

### To gain customers' views and understand their needs and wants

By carrying out market research, a business can ascertain exactly what the customer wants. This will apply to the **benefits** they require, the amount of **disposable income** they can afford to spend on a new product, the **quality** of materials demanded, **when**, and **where** the goods or services are most needed. A company can then tailor their product to best fulfil those wants or needs. A new product often needs to be of higher **quality**, deliver **faster** or more **convenient** service, offer wider **choice** or be of better **value** to succeed.

### To understand how a good/service complements others on the market

Research will be used to assess all other similar products on the market. This will include a detailed analysis of the prices they charge, the functionality of each product, their quality and the proportion of the market they each have (the market share). Entrepreneurs will be looking to identify a gap in the market where a new product could sit, or where a new product can fulfil needs that others don't.

1. Explain **one** benefit to a business of meeting customer needs.
2. Analyse **two** benefits to a business of identifying a gap in the market.

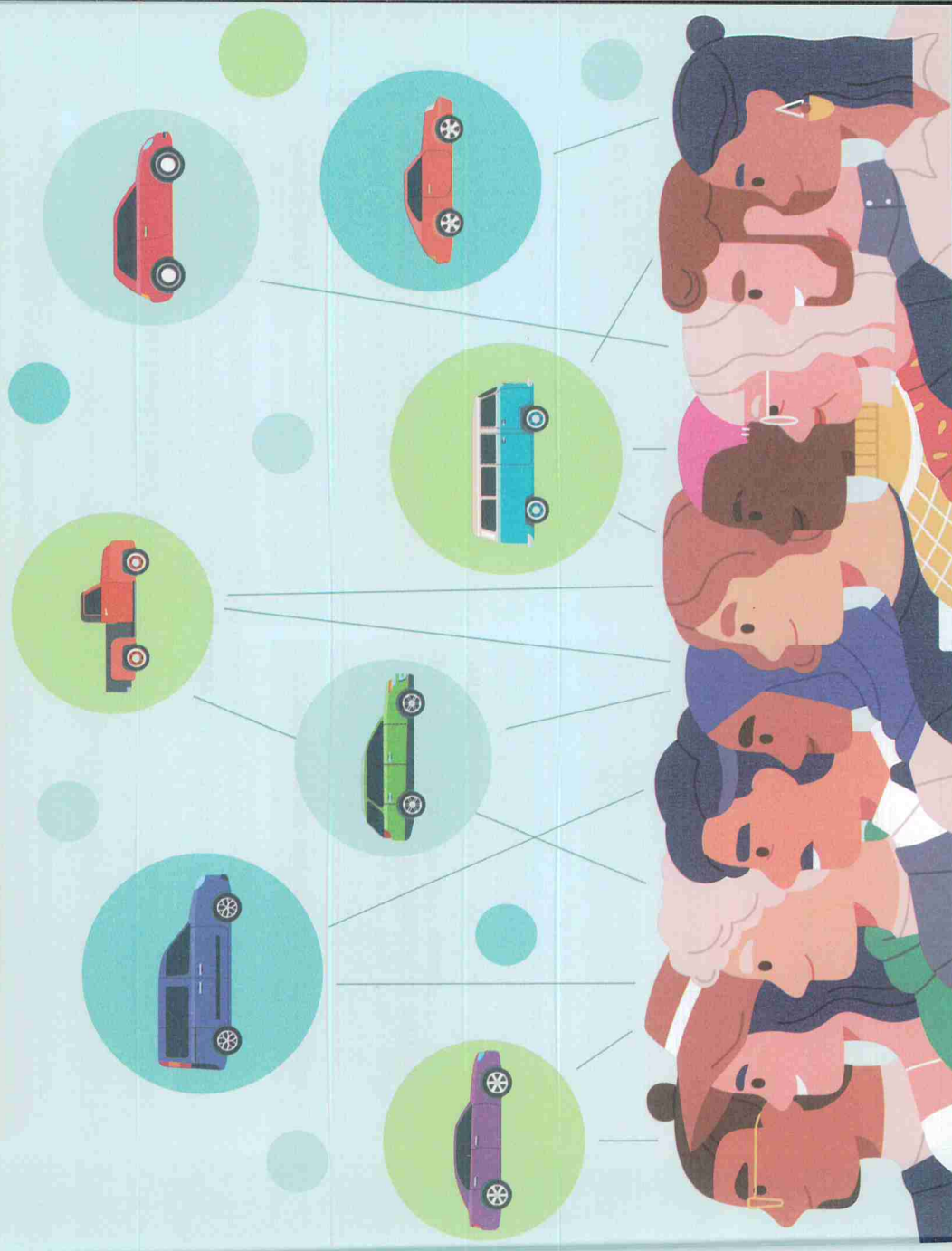
[2]

[6]

1. By satisfying the needs of customers, a business will make customers happy.<sup>[1]</sup> Therefore they may see an increase in sales from repeat purchases and by attracting new customers.<sup>[1]</sup> As a result, this would help the business to survive and become successful.<sup>[1]</sup>

2. By identifying a gap in the market, a business will know that no other business is serving the needs of those customers.<sup>[1]</sup> Therefore, by producing a product that does meet these needs they are unlikely to face much competition.<sup>[1]</sup> This may lead to a large increase in sales and revenue for the business,<sup>[1]</sup> potentially increasing profit.<sup>[1]</sup>

Another benefit is that by being the only provider of a certain product, the business can charge a higher price.<sup>[1]</sup> This is because if customers want the product, they will have to buy it from that business.<sup>[1]</sup> This therefore leads to higher revenue made per sale<sup>[1]</sup>, potentially increasing overall profits.<sup>[1]</sup>



# PRIMARY MARKET RESEARCH METHODS

**Primary market research** is new information that is collected first-hand by the business. It includes carrying out a survey, asking people to fill out a questionnaire, holding focus groups and carrying out observations.

## Advantages and disadvantages of primary research

### Advantages

- + The information collected will be up to date
- + The questions can be tailored to ask specific questions relevant to the business
- + It allows the business to have direct contact with existing and potential customers

### Disadvantages

- It can be time consuming to collect
- The research is open to potential bias, depending on the sample used
- Often more expensive

## Primary research methods

Market research methods may be carried out **physically** (in person), or they may be done **digitally**. Digital methods may include CCTV, the Internet or the mobile phone network.

### Focus groups

- Small groups of people can be brought together to discuss a brand, a product idea, topic or issue. They may also handle a prototype or test a new food product.
- + Can gain deeper insight into opinions or ideas
- + Group researcher can direct conversation and explain questions to gather more detail or information
- + Data will be exclusive to the company undertaking the research
- + Can read body language to gain additional visual clues and opinions
- Can be expensive and time consuming as it is often tricky to organise
- A limited number of respondents can take part with a small group
- Not all members of the group may contribute fairly or honestly

### Questionnaires, surveys and interviews

**Questionnaires** are carefully designed to find out opinions on something. They can be conducted through **surveys** either **online**, in **person**, by **phone**, **mail** or **email**.

**Interviews** are usually conducted on a one-to-one basis and offer flexibility for the interviewer to adjust the questions to suit the replies.

- + Online surveys can provide a lot of data
- + Questionnaires are a relatively low-cost method of data collection
- + Can gather responses from large numbers of people
- Interviews can be costly and time-consuming
- People may respond inaccurately
- Questionnaires may get ignored as junk or spam

## Primary research methods continued

### Observations

Watching how **people** (consumers) behave in different environments or looking at **locations**.

- + Can be used to find patterns in behaviour
- + Gives a true picture of behavioural response rather than how people say they may respond
- Can be time-consuming and costly
- Cannot reveal the reasons for people's behaviour

### Test marketing or pilots

A new product, service or marketing campaign is offered to a limited group, store or area in order to evaluate the consumer response. New flavours of a product may be **piloted** in select stores only to begin with.

- + Success of a product can be judged before rolling it out nationally
- + Can help with predictions for the scale of a national launch with relation to stock, distribution and promotional offers
- + Can get some legitimate testimonials before the product launches
- Results of a pilot may not be representative of the whole population
- Competitors will become aware of the product before it is fully launched and could use that to their advantage

### Consumer trials

Products or services are offered before the business has completed all of the branding and marketing in order to gauge public opinion. In return for trialling a product, **feedback** is often requested.

- + May encourage early adopters of the product once launched
- + Often able to gather honest feedback
- + Feedback may result in immediate adaptations to the product
- Competitors may become prematurely aware of a new product before it is released publicly
- Giving away free products can be expensive
- Feedback and opinions can be difficult to analyse

Yev has developed an early prototype of a product and needs to get some primary feedback on the function of the device. Explain which method of research would be most suitable. [2]

*Focus group.*<sup>[1]</sup> This can be used to get valuable insights into people's real thoughts and opinions, whilst they handle the physical prototype.<sup>[1]</sup>



# SECONDARY MARKET RESEARCH SOURCES

**Secondary market research** (also known as **desk research**) involves gathering data that already exists as it has been collected by someone else.

## Advantages and disadvantages of secondary research

### Advantages

- + It is usually cheaper than primary research
- + It can be less time consuming because information is more easily found

### Disadvantages

- The information gathered may not be specific or relevant to the business
- The information may be out of date

## Secondary research methods

### Internal data

**Internal data** is that collected by the business themselves. This may include sales, accounts and customer data.

- + Trends can be identified to help decision making and forecasting
- + Highly relevant to the business
- + Quick and free to access
- Data could be out of date or erroneous
- May not be helpful for launching new products into new markets

### Competitors' data

Many businesses are required to publish their financial accounts publicly online. These can give clues as to their health and structure. **Competitor websites** will also have information about prices, features and sometimes a development road map.

- + Information is free and easily accessible
- + Direct competitors' information will be very relevant
- Competitors are unlikely to publish anything that would be useful to other companies
- Data for large companies cannot be easily compared to sole traders for example

### Books, newspapers and trade magazines

**Books** offer useful information but may be out of date. **Newspapers** are very current and often have a business section. **Trade magazines** are specific to an industry and can contain very up to date and relevant information. Articles may be online or in print.

- + Easy to access information
- + Inexpensive source
- Information may be incorrect or biased
- May not be a perfect match for the business

## Secondary research methods continued

### Mintel, Keynote and Which?

#### Market research companies

collect vast amounts of data and provide reports and summaries to their customers.

- + Precise and comprehensive data
- + Regularly updated
- High cost to access the research findings
- Research is likely to be broader and less specific for the business

### Government publications and statistics

The government regularly carry out extensive **surveys** and have **data** on a wide range of areas. This includes the national **census** data.

- + Reliable data source with no bias
- + Usually free
- + Quick to access
- + Can be very detailed
- + Can specify exact data and format
- Can be out of date
- Charges may apply for access to specific data
- May not relate directly to your business



You have been asked to research a potential new business idea for seasonal lawn care involving weed killer and fertiliser treatments in your area.

Explain **two** appropriate secondary sources you could use to gather data. [4]

Trade magazines could be used<sup>[1]</sup> to find out the most effective / best value chemicals for lawn treatment.<sup>[1]</sup> Competitor's websites may provide examples of the types of chemical used<sup>[1]</sup> and material costs for those could be found on other websites.<sup>[1]</sup> Government statistics could be used to find out how many people in the area have gardens<sup>[1]</sup> to get an idea of the size of the market.<sup>[1]</sup>

'The internet' can be used to conduct primary or secondary market research but would not be classed as a stand-alone research method or source in itself.



## TYPES OF DATA

**Qualitative data** is based on people's feelings, judgements and opinions, and cannot be expressed in numerical form. **Quantitative data** is numerical and can therefore be more easily statistically analysed.

Market research will be more effective when a business uses a combination of both quantitative and qualitative data. Managers need to be able to explain the statistics and figures that have been collected. Qualitative data allows them to do this.

### Qualitative analysis

**Qualitative analysis** is helpful for getting a feel for general opinion but is limited by the amount of information that can reasonably be collected and analysed.

### Internal or external analysis

Once data has been collected, it must be carefully analysed to extract useful information from it. This part of the research can often take longer than collecting the initial data. Businesses can choose to collate and analyse it all themselves internally, or they may employ a specialist external company to perform the analysis for them.

### Quantitative analysis

**Quantitative analysis** is most useful for statistical research, making direct comparisons and drawing conclusions from larger scale data collection. Statistics may, however, miss some of the key, real-world issues, and the raw data can be costly to analyse.

FitTracker is a new health and exercise app idea being researched by a small software company. They are analysing the needs of the market using a variety of questions including those that ask for a score of features out of ten and others that require written responses.

- (a) Analyse **one** benefit of gathering quantitative data from research. [3]  
 (b) Discuss **two** drawbacks of gathering qualitative data from research. [4]

(a) One benefit of quantitative data from research is it is easy/quick to analyse large amounts of data<sup>[1]</sup> which can be turned into graphs/useful statistics.<sup>[1]</sup> For example, scores out of ten for the app allows the company to quickly calculate an average<sup>[1]</sup> to see which features may be better than others and which may not be worth putting into the design.<sup>[1]</sup>

There is less risk of bias<sup>[1]</sup> when analysing larger volumes of data as it contains the views of many more individuals<sup>[1]</sup> so the exercise app is more likely to meet the needs of the majority of users<sup>[1]</sup>

(b) A drawback of gathering qualitative data from research is that it can be less structured than quantitative data.<sup>[1]</sup> It is more exploratory because it is gathering people's opinions with varying lengths of answers.<sup>[1]</sup> This is therefore harder to quantify to get a solid statistic.<sup>[1]</sup> It can, however, reveal customers' tastes or dislikes to help improve the app design.<sup>[1]</sup>

Another drawback is that it can be much more time consuming to collect qualitative data,<sup>[1]</sup> such as the feedback given in the written answer questions. This can take time away from more effective forms of research / tasks<sup>[1]</sup> such as software development.

## TYPES OF MARKET SEGMENTATION

**Market segmentation** involves grouping customers together based on shared characteristics, wants and needs. Once the target segment is identified, a business must decide what its needs are and where to place its product in the market.

### Age



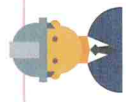
Customers can be grouped by how old they are. Different age groups have common interests. For example, children's toys will appeal to a younger **age** range.

### Gender



Traditionally, goods or services were divided into markets based on male or female **genders** according to their interests and needs. For example, aftershave is typically worn by males whereas perfume is worn by females. Additional gender identities are also recognised which enterprises may target.

### Occupation



People in similar **occupations** may have similar needs. Categories of **unskilled, skilled, administrative, managerial** and **professional** occupations may be defined in order to target a certain group with a product based on their job roles or the likely income associated with those roles. Ties and shirts, for example, may be targeted at professionals and those with office-based or administrative roles.

### Income



Customers may be grouped based on how much money they earn. A business may need to charge less to a lower **income** group or they may target luxury goods such as watches and sports cars towards the higher earning groups.

### Location



Customers are grouped together based on where they live. A business may choose to focus on selling to people in certain **areas**. For example, a local taxi service.

### Lifestyle



Grouping customers based on their **hobbies** and **interests** or based on the way they live their lives (e.g. health conscious and active).

Failing to concentrate on the needs of specific groups can mean no-one feels fully satisfied.

Franco runs a popular upmarket Italian restaurant and takeaway service for handmade pizzas. Its pizzas are made using the finest organic ingredients and priced above those of other competitors locally.

Explain **two** ways that Franco could segment the market for the Italian restaurant. [4]

Franco's likely target market is based on nearby location<sup>[1]</sup> as people need to be able to receive a pizza while it is still hot.<sup>[1]</sup> Since the pizzas are handmade and more expensive, Franco should target wealthier customers<sup>[1]</sup> who can more easily afford the food.<sup>[1]</sup> Groups who lead busy lifestyles<sup>[1]</sup> may like the convenience of a delivery service, even for an additional cost, which could widen the delivery catchment / increase the size of the local market.<sup>[1]</sup>

## THE BENEFITS OF MARKET SEGMENTATION TO A BUSINESS

Segmenting a market allows a business to focus on the precise needs of each group. This aids satisfaction, provides a greater competitive edge against those who don't segment their market and improves customer retention.

**Segmentation** provides multiple advantages that each impact the others to provide further benefit:

### Ensures specific customer needs are matched and met

A **niche** or small group may have distinct needs which can be uniquely met with a product or service designed specifically with them in mind.

### Potential for increased profits/profitability

The more that people feel their needs are met by a product or service, the more likely they are to buy it and recommend it to others. This benefits **sales**.

### Enables targeted marketing

**Marketing** costs can be reduced by sending promotional material and emails to highly targeted groups only. These include people who are most likely to become customers. Knowing the distinct needs of a segment also helps to get the marketing messages right.

### Increased customer retention

Customers who feel well supported with their needs are most likely to remain **loyal** and continue to purchase from a business. This builds a valuable base of repeat business.

### Potential for an increase in market share

Increased satisfaction in a segment is likely to increase sales. Overall, this may contribute to a greater whole **market share** for a business, especially if they can repeat their successes in several different groups.

The VW group make small hatchbacks, family saloons, sports cars and SUVs under different brands including Skoda, VW, Audi, Porsche and Lamborghini. This provides something specifically for each target group and for each budget.

## EXAMINATION PRACTICE

- Which **one** of the following is not a purpose of researching competitors' products? [1]
  - Determine their quality.
  - Find out what customers want.
  - Find out what prices they charge.
  - See what products they offer.
- Data that largely contains opinions and perspectives is likely to be: [1]
  - Primary data
  - Qualitative data
  - Quantitative data
  - Secondary data
- Which **one** of the following is a disadvantage of using government publications in your research? [1]
  - Generic information which may not apply to your business
  - Quick to access
  - Unbiased
  - Usually available without charge
- (a) You have been asked to conduct some secondary research for a start-up pet grooming service. [1]
  - Give **one** advantage of performing secondary market research over primary research. [1]
  - Give **one** disadvantage of performing secondary market research over primary research. [1]
 (b) Explain **one** impact of making decisions within the grooming business based on unreliable market research data. [3]
 (c) Explain **one** appropriate method of obtaining customer opinions for your business. [2]
- Explain **one** way in which using market segmentation can help a business. [2]