RESEARCHING YOUR MARKET

Marketing Series

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INTRODUCTION

To be successful, a small business must know its market. Marketing research is simply an orderly, objective way of learning about people -- the people who buy from you or might buy from you.

This publication provides an overview of what market research is and how it's done. It introduces inexpensive techniques that small business owner-managers can apply to gather facts about their customers and the people they'd like to have for customers.

TRASH AND PEANUTS

Some marketing research material is nothing but trash. Marketing research can be done for peanuts -- even with peanuts. Shocking statements? Perhaps, but both of them are literally true.

Take trash, for instance. Inspection of outgoing waste is a practice at many small restaurants. People may order the Flounder a la Marzipan because of the novelty of the dish; but if a restaurateur finds most of it leaving the table uneaten, it had better come off the menu because it won't be in demand much longer.

You can use trash positively, too, to find out what people like. It may not be very dignified to check trash cans for cartons and containers, but they are a direct indication of what consumers are buying. You could also find out what competitors are selling (or at least ordering) by checking their trash.

The point here isn't to turn you into a scavenger, but to suggest that marketing research isn't necessarily only done by sophisticated staffs of statistical technicians working with powerful computers and grinding up figures from elegant surveys. Marketing research doesn't have to be fancy and expensive.

It can be done with peanuts, as one creative discount merchandiser discovered. During a three-day promotion the merchant offered customers . . . all the roasted peanuts you can eat while shopping in our store. By the end of the promotion the merchant had litter trails that provided information on the traffic pattern in the store. Trampled peanut hulls littered the most heavily traveled store aisles and heaped up in front of merchandise displays of special interest to customers. By studying the trails, the merchant learned where customers went in the store and what they wanted.

WHAT IS MARKETING RESEARCH?

Basically, marketing research is just what the merchant did with the peanuts. Find out what catches customers' attention by observing their actions and drawing conclusions from what you see. To put it more formally, in the words of the American Marketing Association, marketing research is the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services.

Marketing research is an organized way of finding objective answers to questions every business must answer to succeed. Every small business owner-manager must ask

- Who are my customers and potential customers?
- What kind of people are they?
- Where do they live?
- Can and will they buy?
- Am I offering the kinds of goods or services they want -- at the best place, at the best time and in the right amounts?
- Are my prices consistent with what buyers view as the product's value?
- Are my promotional programs working?
- What do customers think of my business?
- How does my business compare with my competitors?

Marketing research is not a perfect science; it deals with people and their constantly changing likes, dislikes and behaviors, which can be affected by hundreds of influences, many of which cannot be identified. Marketing research does, however, try to learn about markets scientifically: to gather facts and opinions in an orderly, objective way; to find out how things are, not how you think they are or would like them to be; to find out what people want to buy, not just what you want to sell them.

WHY DO IT?

It's tough -- impossible -- to sell people what they don't want. (Remember the New Coke problem?) That's pretty obvious. Just as obvious is the fact that nothing could be simpler than selling people what they do want. Big business does marketing research to find out what consumers want. Small business needs market research too.

For once, small business holds an edge. The giants hire experts to define the mass market in which they sell. Owner-managers of a small business are close to their customers; they can learn much more quickly about customers' likes and dislikes and buying habits.

Small business owners often have a feel for their customers -- their markets -- that comes from years of experience. But experience can be a two-edged sword, as it includes a tremendous mass of information acquired at random over a number of years, information that may no longer be timely or relevant to making selling decisions. In addition, some facts may be vague, misleading impressions or folk tales of the everybody knows that variety.

Marketing research focuses and organizes marketing information. It ensures that such information is timely. It provides what you need to

- Reduce business risks.
- Spot problems and potential problems in your current market.
- Identify and profit from sales opportunities.
- Get basic facts about your market to help you make better decisions and set up plans of action.

HOW TO DO IT

You probably do some market research every day, without being aware of it, in the course of your routine management activities. You check returned items to see if there's some pattern. You run into one of your old customers and ask her why she hasn't been in lately. You look at a competitor's ad to see what that store is charging for the same products you're selling.

Marketing research simply makes this process more orderly. It provides a framework that lets you objectively judge the meaning of the information you gather about your market. The flowchart shows the steps in the marketing research process.

Market Research: The Process

Define the problem (or opportunity).

Assess available information.

Gather additional information, if required.

1. Review internal records and files; interview employees.
2. Collect outside data (secondary and primary).

Organize and interpret data.

Make a decision and take action.

Assess the results of the action.

Define the Problem (or Opportunity)

Defining the problem (or opportunity), the first step of the research process, is so obvious that it is often overlooked, yet it is the most important step. You must be able to see beyond the symptoms of a problem to get at the cause. Seeing the problem as a sales decline is not defining a cause, it's listing a symptom.

To define your problem, list every possible influence that may have caused it. Have your customers changed? Have their tastes changed? List the possible causes. Eliminate any that you don't think can be measured, because you won't be able to take any action on them.

You must establish an idea of the problem, with causes that can be objectively measured and tested. Look at your list of possible causes frequently while you're gathering your facts, but don't let it get in the way of the facts. (Incidentally, although this publication speaks of problems, the same techniques can be used to investigate potential opportunities.)

Assess Available Information

Once you've formally defined your problem, assess the information that is immediately available. You may already have all the information you need to determine if your hypothesis is correct, and solutions to the problem may have become obvious in the process of defining it. Stop there. You'll be wasting time and money if you do further marketing research.

What if you aren't sure whether or not you need additional information at this point? What if you'd feel more comfortable with additional data? Here you must weigh the cost of more information against its usefulness. You're up against a dilemma similar to guessing in advance your return on your advertising dollar. You don't know what return you'll get, or even if you'll get a return. The

best you can do is to balance that against the cost of gathering more data to make a better informed decision.

Gather Additional Information

In gathering information, think cheap and stay as close to home as possible. Before considering anything fancy, such as surveys or field experiments, look at your own records and files. Look at sales records, complaints, receipts and any other records that can show you where you customers live and work, and how and what they buy.

One small business owner found that addresses on cash receipts allowed him to pinpoint customers in his market area. With this kind of information he could cross-reference his customers' addresses and the products they purchased, to check the effectiveness of his advertising.

Your customers' addresses can tell you a lot about them. You can pretty closely guess their life-styles by knowing their neighborhoods. Knowing how they live can give you solid hints on what they can be expected to buy.

Credit records are an excellent source of information about your markets. In addition to customers' addresses, they give you information about their jobs, income levels and marital status. Offering credit is a multifaceted marketing tool, although one with well-known costs and risks.

When you've finished checking through your records, turn to that other valuable internal source of customer information: your employees. Employees may be the best source of information about customer likes and dislikes. They hear customers' minor gripes about the store or service -- the ones the customers don't think important enough to take to you as owner-manager. Employees are aware of the items customers request that you may not stock. They can probably supply good customer profiles from their day-to-day contacts.

Outside Data

Once you've exhausted your internal sources for information about your market, the next steps in the process are to do primary and secondary research outside.

Secondary Research

Secondary research involves going to already published surveys, books, magazines and the like and applying or rearranging the information in them to bear on your particular problem or potential opportunity.

Say, for example, that you sell tires. You might guess that sales of new cars three years ago would have a strong effect on present retail sales of tires. To test this idea you might compare new car sales of six years ago with replacement tire sales from three years ago.

Suppose you found that new tire sales three years ago were 10 percent of the new car sales three years before that. Repeating this exercise with car sales five years ago and tire sales two years ago,

and so on, you might find that in each case tire sales were about 10 percent of new car sales made three years before. You could then logically conclude that the total market for replacement tire sales in your area this year should be about 10 percent of new car sales in your locality three years ago.

Naturally, the more localized the figures you can find, the better. For instance, there may be a national decline in new housing starts, but if you sell new appliances in an area in which new housing is booming, you obviously would want to base your estimate of market potential on local conditions. Newspapers and local radio and TV stations may be able to help you find this information.

There are many sources of secondary research material. You can find it in libraries, universities and colleges, trade and general business publications, and newspapers. Trade associations and government agencies are rich sources of information. Go to your public library and ask for a copy of GALES' Directory.

Primary Research

Primary research on the outside can be as simple as asking customers or suppliers how they feel about your store or service firm or as complex as the surveys conducted by sophisticated professional marketing research firms. Primary research includes among its tools direct mail questionnaires, telephone or on-the-street surveys, experiments, panel studies, test marketing, behavior observation and so on.

Primary research is often divided into reactive and nonreactive research. The peanut shell study at the beginning of this publication is an example of nonreactive primary research: it was a way to see how real people behaved in a real market situation (in this case, how they moved through the store and which displays attracted their attention) without influencing that behavior even accidentally.

Reactive research (surveys, interviews, questionnaires) is what most people think of when they hear the words marketing research. It is best left to the experts, as you may not know the right questions to ask. There's also the danger that people won't want to hurt your feelings when you ask their opinions about your business, or they'll answer questions the way they think they are expected to answer rather than telling you how they really feel.

If you can't afford high-priced marketing research services, ask nearby college or university business schools for help.

Organize and Interpret Data

After collecting the data you must organize it into meaningful information. Go back to your definition of the problem and compare it with your findings. Prioritize the data with the most significant at the top.

- What strategies are suggested?
- How can they be accomplished?

- How are they different from what I am doing now?
- What current activities should be increased?
- What current activities must I drop or decrease in order to devote adequate resources to new strategies?

Make a Decision and Take Action

Prioritize each possible strategy from the standpoint of

- Immediate goal to be achieved
- Cost to implement
- Time to accomplish
- Measurement of success

Your research may have suggested ten possible strategies. Select the two or three that appear to have the greatest impact potential or are most easily achievable.

For each strategy, develop tactics.

- Staff responsibility
- Steps necessary
- Budget allocation
- Time line with deadlines for accomplishing strategy steps
- Progress measures

For example, if a company newsletter on industry trends is selected as a strategy, the tactics would include

- Appointment of an editor
- Product decisions
  - Frequency (monthly, quarterly, annual)
  - Format (size, number of pages, design, paper, ink, graphics/illustrations)

-- Production (in-house desktop publishing or commercial printer)

-- Distribution (mailing lists -- customers, suppliers, chamber of commerce, trade groups -- or piggybacking on other publications such as newspapers)

! Budget allocation

! Controls (content and accuracy approval)

! Time lines (for implementing each tactic; for completing each edition)

! Progress measures (return survey with first edition, mailed survey following first edition, telephoned survey)

Make a final decision on the strategies and go to work on the tactics.

Assess the Results of the Action

Analyze your progress measures. If adjustments are appropriate, make them. At the conclusion of the time you have allotted for accomplishing your goal, take a hard look at the results.

! Did you achieve your goal?

! Should the decision be renewed on a larger scale?

If you are disappointed in the results, determine why the plan went awry.

What You Can Do

Marketing research is limited only by your imagination. Much of it you can do with very little cost except your time and mental effort. Here are a few examples of techniques small business owner-managers have used to gather information about their customers.

Discover Your Local Library

Large companies generally have a wealth of data available on many business problems. Smaller companies often ignore such data because they are unaware of its existence, although it may be as close as next door.

The local public, trade school, college or university library is a prime source of inexpensive, targeted information about business topics such as competition, the law, government, society, culture, economics and technology.

Although the resources of public libraries vary widely, the library's four walls and the size of its collection do not limit its service. New information technologies have changed libraries dramatically. Moreover, many academic libraries are open to the public.

A typical library includes reference and general books, periodicals and possibly one or more specialized collections. Several tools and services help one find material.

The first is the card catalog, either in a system of individual cards or in a computer. The systems list books by author, title and subject, periodicals by title and subject. Call numbers indicate the item's location.

Indexes help find information in leading magazines, journals or newspapers. Among these are the Business Index, the Business Periodical Index, the Public Affairs Information Service Bulletins (PAS), the Statistical Reference Index, the Wall Street Journal Index, NewsBank, the American Statistics Index and the Index to U.S. Government Periodicals.

These indexes list articles according to subject headings; they supply the title and author as well as the publication title, date and page number. Indexes are available in several formats including printed versions, optical disks, film, CD-ROMS (compact disk read-only memory) and on-line data bases.

General information and statistical data can be found under various subject headings, such as small business marketing, marketing to Hispanics, marketing to young adults, household income of the elderly and export marketing.

Information about industries and individual companies can also be found under Standard Industrial Classification (SIC) headings. SIC is a uniform coding system developed by the federal government to classify establishments according to economic activity. Codes for specific industries are listed in the Standard Industrial Classification Manual. Four-digit codes define specific industries such as SIC 2653, corrugated and solid fiber box manufacturers, or SIC 5812, eating establishments. Most federal government economic data and many business and industrial directories use SIC codes.

If a local library's collection does not contain the material you need, an interlibrary loan may be available. Most libraries are linked with other libraries, which permits patrons to borrow books and get photocopies of articles. At larger libraries, a computerized telephone hookup to distant data bases can provide a wealth of information in minutes.

License Plate Analysis

In many states license plates provide information about where the car's owner lives. You can generally get information from state agencies on how to extract this information from license numbers. By taking down the numbers of cars parked in your location you can estimate your trading area. Knowing where your customers live can help you aim your advertising for good effect. Or you might analyze your competitors' customers and direct your advertising to try to win them for your business.

Telephone Number Analysis

Like license numbers, telephone numbers can tell you the areas in which people live. You can get

customers' telephone numbers on sales slips, from checks and credit slips and the like.

Coded Coupons and Tell Them Joe Sent You Broadcast Ads

You can check the relative effectiveness of your advertising media by coding coupons and by including phrases in your broadcast ads that customers must use to get a discount on a sale item. This technique may reveal what areas your customers are drawn from. Where they read or heard about the discount offered in your ads will also give you information about their tastes.

People Watching

You can learn a great deal about your customers just by looking at them. How are they dressed? How old do they appear to be? Are they married? Do they have children with them? Most owner-managers get a feel for their clientele in just this way. Run a tally sheet for a week that keeps track of what you're able to tell about your customers from simple outward clues. It might confirm what you've assumed, or there might be surprises.

Customer Comment Cards

Give cards to your customers that solicit their opinions about your business. Ask customers to drop the cards off before they leave or mail them to you. Analysis of this information can help you spot potential problems and identify opportunities to increase customer satisfaction.

Do, Don't Overdo

The key to effective marketing research is neither technique nor data -- it's useful information. That information must be timely; your customers' likes and dislikes shift constantly. You'll never know everything about a particular problem anyway. It's much better to get there on time with a little than too late with a lot. If you spend too much time gathering too much data, going for a sure thing, you may find your marketing research is nothing but trash.

BIBLIOGRAPHY

The information presented here is necessarily selective and no slight is intended toward material not mentioned. Publishers are invited to notify the SBA of relevant publications and other sources of information for possible inclusion in future editions. This bibliography may be reprinted but not used to indicate approval or disapproval by the SBA of any private organization, product or service.

U.S. Government Publications

The publications cited in this section are books and pamphlets issued by federal agencies and listed under the issuing agency. Some are free; others cost a nominal fee. GPO (Government Printing Office) publications can be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. When ordering a GPO publication, give the title and series number of the publication and the name of the agency. You can also order by calling (202) 783-

3238. Contact GPO for current prices.

Publications should be requested by title and any identifying number. Most libraries maintain listings of currently available federal publications. Some keep selected government publications for ready reference through the Federal Depository Library System.

U.S. Small Business Administration
Washington, DC 20416

SBA issues a wide range of management and technical publications designed to help owner-managers and prospective owners of small businesses. For general information about the SBA, its policies and assistance programs, contact your nearest SBA office.

The Small Business Directory, a listing of currently available publications and videotapes, can be obtained free from SBA, P.O.Box 15434, Fort Worth, TX 76119, or from any of SBA's field offices. The directory contains a form that can be used to order a particular title.

Bureau of the Census
Department of Commerce Washington, DC 20233
(Contact the Public Information Office for a more complete listing of publications.)

Catalog of United State Census Publications. Published monthly with quarterly and annual cumulations. A guide to census data and reports. This catalog contains descriptive lists of publications, data files and special tabulations.

Census of Business. Compiled every five years (years ending in 2 and 7). Organized in the following three units:

> *Census of Retail Trade (1987)*. This report presents statistics for more than a hundred different types of retail establishments by state, standard metropolitan statistical area (SMSA), county and community (population over 2,500). It includes data on the number of outlets, total sales, employment and payroll. Updated each month by Monthly Retail Trade.
>
> *Census of Wholesale Trade (1987)*. Statistics for more than 150 types of wholesaler categories. The data detail the number of establishments, payroll, warehouse space, expenses, end-of-year inventories, legal form of organization and payroll. Updated each month by Monthly Wholesale Trade.
>
> *Census of Selected Services (1987)*. Provides statistics similar to those reported by the Census of Retail Trade for retail service organizations such as auto repair centers and hotels. Does not include information on real estate, insurance or the professions. Updated monthly by Monthly Selected Service Receipts.

Census of Manufacturers (1987). Compiled every five years (years ending in 2 and 7). Reports on 450 different classes of manufacturing industries. Data for each industry include information on capital expenditures, value added, number of establishments, employment data, material costs,

assets, rent and inventories. Updated yearly by the Annual Survey of Manufacturers.

Census of Population (1990). Compiled every ten years. Presents detailed data on population characteristics of states, counties, SMSAs and census tracts. Demographics data reported include age, sex, race, marital status, family composition, employment income, level of education and occupation. Updated annually by the Current Population Report.

Statistical Abstract of the United States. Published annually. This is a useful source for finding current and historical statistics about various aspects of American life. Contents include statistics on income, prices, education, population, law enforcement, environmental conditions, local government, labor force, manufacturing and many other topics.

State and Metropolitan Area Data Book. A Statistical Abstract supplement (1986). Presents a variety of information on states and metropolitan areas in the United States, on subjects such as area, population, housing, income, manufacturers, retail trade and wholesale trade.

County and City Data Book. Published every five years to supplement the Statistical Abstract. Contains 144 statistical items for each county and 148 items for cities with a population of 25,000 or more. Data is organized by region, division, state and SMSA for income, population, education, employment, housing, banking, manufacturing, capital expenditures, retail and wholesale sales, and other factors.

County Business Patterns. Annual. Contains a summary of data on number and type (by SIC number) of business establishments as well as their employment and taxable payroll. Data are presented by industry and county.

Other Agencies

Measuring Markets: A Guide to the Use of Federal and State Statistical Data. GPO. Provides federal and state government data on population, income, employment, sales and selected taxes. Explains how to interpret the data to measure markets and evaluate opportunities.

Selected Publications to Aid Business and Industry. Listing of federal statistical sources useful to business and industry. Statistics of Income. Annual. Published by the Internal Revenue Service of the Treasury Department. This publication consists of data collected from tax returns filed by corporations, sole proprietorships and partnerships, and individuals.

State Statistical Abstract. Every state publishes a statistical abstract, almanac or economic data book with statistics for the state, its counties and cities. A complete list of these abstracts is in the back of each volume of the Statistical Abstract and Measuring Markets.

APPENDIX: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- *SCORE: Counselors to America's Small Business*, a national organization sponsored by SBA of over 11,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Free online counseling and training at www.score.org.

- *Small Business Development Centers (SBDCs),* sponsored by the SBA in partnership with state governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.

- *Women's Business Centers (WBCs),* sponsored by the SBA in partnership with local non-government organizations across the nation. Centers are geared specifically to provide training for women in finance, management, marketing, procurement and the Internet.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722) or visit our website, www.sba.gov.

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. Find a "Catalog of Government Publications at http://catalog.gpo.gov/F

Many federal agencies offer Websites and publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Federal Citizen Information Center (FCIC)
Http://www.pueblo.gsa.gov
1-800-333-4636
The CIO offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request

Washington, DC 20207
http://www.cpsc.gov/cpscpub/pubs/pub_idx.html
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
http://www.usda.gov
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Washington, DC 20230
http://www.osec.doc.gov/obl/
DOC's Business Liaison Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Substance Abuse and Mental Health Services Administration
1 Choke Cherry Road
Rockville, MD 20857
http://www.workplace.samhsa.gov
Helpline: 1-800-workplace. Provides information on Employee Assistance Programs Drug, Alcohol and other Substance Abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
1500 Pennsylvania Avenue NW
Washington DC 20230
http://www.irs.gov/business/index.html
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
1200 Pennsylvania Avenue NW
Washington, DC 20480
http://epa.gov/sbo

Hotline: 1-800-368-5888
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
5600 Fishers Lane
Rockville MD 20857-0001
http://www.fda.gov
Hotline: 1-888-463-6332
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
  Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

- **Books**
  Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.

- **Magazine and newspaper articles**
  Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

- **Internet Search Engines**

In addition to books and magazines, many libraries offer free workshops, free access to computers and the Internet, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.