

# Conduct a Market Analysis

## Overview

Whether you are starting a new business or launching a new product, conducting a marketing analysis is the first step in determining if there is a need or audience for your idea. Knowing the market's needs and how it is currently serviced provides you with key information that is essential in developing your product/service and marketing plan. Too often, businesses spend thousands of dollars launching a "new" idea with a limited market because of competition. The owner is forced to reevaluate his strategy and determine if there is room for another player.

Although the quality of the product is critical, your development of the best product on the market will not necessarily correlate with the most sales. Up to 50 percent of a product's price can be for marketing. The company who wins the marketing game generally will capture the larger share of the market. For related information, see [Identify Your Target Market](#).

Conducting a market analysis will help you:

1. Prepare to enter a new market
2. Launch a new product/service
3. Start a new business

At the completion of this exercise, you should be able to:

- Explain the concepts of a marketing analysis
- Determine if there is a need for your idea or product/service
- Identify a new market
- Analyze your current market
- Gain a competitive advantage
- Begin to establish a marketing plan

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### I. Marketing Analysis - What Is It? Why Should You Do It?

Although the terms "marketing" and "marketing analysis" can both be described as games of information, they are not to be confused. Marketing encompasses all of the activities that go into promoting a product or service. A marketing analysis is the actual assessment of the target population, competition and needs for marketing that product or service.

The marketing analysis process can be broken down into six steps:

1. Defining the problem
2. Analysis of the situation
3. Obtaining data that is specific to the problem
4. Analysis and interpreting the data
5. Fostering ideas and problem solving
6. Designing a plan

So, why should you embark on the market analysis process? The primary reasons are:

- To determine if there is a market for your products or services
- To establish the need for developing a marketing plan
- To ascertain market information that will assist in the sale of your product or service

Before embarking on the complete process, complete the following Market Analysis Questionnaire.

### **Market Analysis Questionnaire**

To begin the market analysis process, answer the following questions. If you cannot answer every question, focus on finding the answers even if it means consulting others. This article can be downloaded or printed to enable you to complete the questionnaire.

These questions will enhance your understanding and knowledge of your target market and industry, and ultimately determine: Is there a need for my product or service?

1. What defined market am I trying to reach?
2. What specific companies are servicing this market?
  - a. Are they successful?
  - b. Are there other companies servicing this market with a similar product?
  - c. Are they successful?
  - d. What is their market share?
3. Is the market saturated or wide open? If so, why?
4. What is the size of the market?
  - a. Is it a growing market?
  - b. Is the industry stable, volatile, growing or trendy?
5. How can I reach this market?
  - a. How do my competitors reach the market?
6. What are the business models of my competitors?
7. What do customers expect from this type of product or service?
8. What core competencies must the product or service have?
9. What are customers willing to pay for this type of product or service?
10. What is my competitive advantage?

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## **II. The Complete Process:**

## A. Defining The Problem

Defining the problem is crucial to conducting a successful marketing analysis. This may require a great deal of time but it is well worth the time and energy expended. Defining the objectives is tantamount to a successful marketing campaign. Many individuals waste valuable time performing good research on the wrong problem.

The following questions will assist you in defining the problem:

1. Are we trying to market our entire product or service line? Or, are we trying to hone in on a new product or a new service?
2. What specific marketing strategies have we utilized in the past two years?
  - a. How has each strategy affected sales?
  - b. What strategies are we currently using?
  - c. How do our competitors market their product?
3. How much money is allocated to marketing?
4. When making a sale, do we survey our customers to determine a referral source?
  - a. Do we thank our referral source?
5. Why would someone choose our product?
  - a. What differentiates our product from our competitors' products?
  - b. Why do people choose our competitors' products or services?
  - c. Do we need to enhance our current product or service?
6. Who are our customers?
  - a. Are they from a specific region?
  - b. How do we attract new customers?
  - c. How do we increase sales from current customers?

Many companies fail to understand the nature of the problem before trying to solve problems related to sales. A classic example occurred in the soft drink industry when Coke and Pepsi, the two top soft drink rivals increased the intensity of marketing efforts to battle for higher sales. At the same time, Dr Pepper's revenues began to decline, a problem that was attributed to a weak promotional campaign. Subsequently, the "Be a Pepper" slogan was instituted. Although the ads were a hit, revenues continued to decrease. The marketing managers had to reanalyze their problem.

Focused research revealed that the target population for Dr Pepper differed from Coke and Pepsi. It was found that Dr Pepper's target market believe life should be lived in accordance with one's own set of personal values and not based on the expectations of others. Cola drinkers, on the other hand, try to win the approval of others. Despite the catchy slogan, Dr Pepper's marketers turned away prospects with a campaign that invited them to be part of a large group of "Peppers."

The soft drink industry clearly exemplifies the importance of defining the problem. It is important not to confuse the symptom with the problem. If a company is having trouble selling a certain product, it doesn't mean that there isn't a need. The problem may be distribution and/or pricing. Mistaking symptoms for problems will lead to misguided research and serious mistakes.

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## B. Analysis Of The Situation

An analysis of the situation is an informal survey of what information is available in the problem area. The analysis will help define the problem and ascertain the need for additional information. This process

entails informal talks with informed people. Informed individuals can be others in the company or outsiders with knowledge about the industry or product. In some instances, customers are contacted to provide information.

When the marketing manager is unfamiliar with the situation, the analysis step is of primary importance. It is important to understand the problem area - including the nature of the target market, competition, the marketing mix and the external environment. Without this knowledge, costly mistakes may result. An example of this problem would be a retailer who wants to survey his customers. A research firm is hired to do in-store interviews. However, as an example, the contracted firm is not aware that many of the stores are in the process of being renovated. As a result, the information collected reveals the customer's focus on the appearance, noise level and difficulty finding items due to construction. The information would be of no value.

The analysis should focus on both primary and secondary research.

### **Primary And Secondary Market Research:**

If you don't have all the answers to the questions listed in the Problem Definition section, you can find the answers by either conducting primary research or accessing secondary research.

Primary research is research that is proactively created for a specific purpose. Primary research may include focus groups, qualitative surveys and phone interviews. This is information you collect yourself.

In contrast, secondary research is research that has already been conducted for other purposes. From it valuable information can be gleaned. Secondary research can be found in libraries, online, through periodicals, books, etc. The easiest and most efficient way of accessing this type of data is on the Internet.

Library information can also be found on the Internet. Access your favorite search engine and type in the following:

For businesses    Type in the trade association name followed by either .com or .org

For universities    Type in the name of the institution followed by .edu

For government    Type in the name of the department followed by .gov

If you want to conduct a detailed industry search, and just type in "industry research reports" and you'll receive a variety of sites. The more specific you are, the more defined your search will be.

The Internet is an excellent tool to conduct a competitive analysis. Simply type in the company name followed by .com. If this doesn't work, try accessing the online yellow pages and type in your competitor's company name. If they have a Web site, you'll have an insider's view of their services and various other reports.

Demographic and competitive reports can be attained for a fee at Dun and Bradstreet's Web site, [dnb.com](http://dnb.com).

Industry newsletters can be emailed to you when new data is reported. By searching your industry on the Internet, you will uncover lots of potentially valuable marketing analysis information.

Other widely used standard research sources include:

- Trade and Industry Sources such as Gale Research publishes the *Small Business Source Book*, which has a strong focus on retail trade. It lists industry associations, trade shows and conventions, consultants and venture capital firms.
- Forrester Research and Gartner Research publish detailed reports and studies focusing on the information technology industry.
- *American Demographics Magazine*
- Federal level and state governments publish reports on specific industries, markets and products. To receive a list of publications call the U.S. Printing Office in Washington, D.C. (202) 783-3238
- The U.S. Department of Commerce publishes the *U.S. Industrial Outlook* each January. It provides a general economic outlook by forecasting growth rates for the coming year and reporting on the production of the last year.
- The U.S. Census Bureau publishes more than 100 current industrial reports on 5,000 manufactured products. *Consumer Information Reports*, better known as CIRs, provide information on production, shipping, inventories, consumption and the number of firms manufacturing each product.

Once you feel comfortable entering a market, make sure your market will be receptive to your product or service. Your widget might be the most innovative on the market, but if your target market doesn't think so, you may be in for a costly year.

A comprehensive primary market research study is ideal. For it to be comprehensive, the research should include information from field and laboratory studies to professionally run focus groups. If you are unable to perform a comprehensive study, conduct a focus group to achieve a comfort level.

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### C. Obtaining Data Specific To The Problem

The next step requires gathering primary research and performing a formal research project. Many approaches can be used to collect primary data. The purpose is for the research to identify what customers think about some topic or behavior patterns. Research can be done in person or through a survey. Questioning can be qualitative or quantitative. Another research option is to use observation of customers and their purchases or utilization of a product or service.

**Qualitative research** utilizes open-ended questions to obtain in-depth answers. Closed-ended questions requiring yes or no answers are avoided. The idea is to have people share their thoughts on a topic without giving them extensive directions or guidelines. Examples of qualitative research questions include:

"What do you think about when you decide on a place to shop for your kids' clothes?"

The consumers are free to answer as they chose: one might talk about convenient location, another about service, and others about the type of designer clothing available. Depth is the important factor in this type of research. Follow-up questions can be asked of each individual to better understand their response and shopping habits. The qualitative approach requires the researcher to exercise judgment in summarizing all the information. Depth is the key.

Qualitative research doesn't have to be question-oriented. Focus group interviews are the most widely used format for qualitative marketing research. This involves the interviewing of six to 10 people in an informal setting. Open-ended questions are posed to gather in-depth information on the subject matter. In a group setting the researcher looks for group interaction to stimulate thinking.

A skilled focus group leader or facilitator can learn a lot from this approach. The facilitator's role is to establish guidelines for the group interaction, to talk as little as possible, to keep the group focused, and to ask simple open-ended questions. A typical focus group session lasts an hour. The sessions can be videotaped for different managers to view. Conclusions reached vary depending on the skill level of the individual. Although qualitative research can be objective, it requires extensive training and experience. Qualitative research may provide ideas or hypotheses, but other approaches based on larger sample size and objective measures are needed to test the hypothesis.

Researchers often use qualitative research to prepare for quantitative research.

**Quantitative research** differs from qualitative in that it gathers parametric statistical information, i.e., information with a number to it. Sample sizes are generally larger and more representative of the market. From the statistics or data generated, conclusions can be drawn. Survey research is usually quantitative in nature. It seeks structured responses, which can be summarized in numbers, like percentages, averages or other usable statistics. An example of quantitative research is what percentage of the consumers shopping in grocery stores purchase coffee. An average score can be calculated.

Survey questionnaires often provide fixed responses to questions to simplify the reply. This multiple choice format makes it faster and easier for the respondent. Simple fill-in-the-number, circle-the-range or exact answer questions are also widely used. A market researcher might ask how many suppliers you use for household appliances or what is your salary range (multiple choices given with ranges of salaries). Fixed responses are computer-friendly, which is how most surveys are analyzed.

A common approach to objectively measuring consumers' attitudes and opinions is to have respondents indicate how much they agree or disagree with a questionnaire statement. Another approach is to have respondents rate a product using a rating scale, called a Likert scale. A number is attached to the product value, for example:

- Excellent = 4
- Good = 3
- Fair = 2
- Poor = 1

A researcher interested in what a target consumer population thinks about a particular frozen dinner might use the following example:

<b>A. Please check your level of agreement with each of the following statements.</b>					
	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
1. I add extra seasoning when I prepare a frozen dinner.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. A frozen dinner is more expensive than eating at a fast food restaurant.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>B. Please rate how important each of the following is to you in selecting a brand of frozen dinner.</b>					
	No Importance			Very Important	

1. Price per serving	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Amount of meat	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Amount of vegetables	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Cooking time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>C. Please check the rating which best describes your feelings about the last frozen dinner you prepared.</b>					
		Poor	Fair	Good	Excellent
1. Price per serving	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Amount of meat	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. Amount of vegetables	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. Cooking time	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Decisions about what specific questions to ask and how to ask them usually depends on how the respondents will be contacted: by mail, in person or by phone.

A **mail questionnaire** is useful when extensive questioning is desired. This type of format allows the respondents to complete the questions at their convenience. They may be more willing to fill out personal or family sensitive issues since the mail questionnaire can be returned anonymously. The questions must be simple and the directions easy to follow, since no interviewer will be present to assist.

The response rate to consumer survey questionnaires is usually 25 percent. Response rates less than 25 percent may not be representative of the market. Only the individual interested might respond, skewing the data. Mail surveys are economical if a large number of people respond. On the other hand, if the response rate is low, this can be a very expensive proposition. This format is slow and requires extensive time to design, disseminate, collect and analyze responses.

**Telephone surveys** are growing in number, and they can be fast and effective. In this format market researchers can ascertain answers to simple questions quickly. Telephone interviews allow the interviewer to probe and learn what the respondent is thinking. If the market researcher is attempting to gather personal or family sensitive information, this is a poor tool.

Numerous firms exist for telemarketing surveys. One thousand respondents may be reached in a single evening when 50 interviewers are placing telephone survey calls. With immediate data entry into computers, results can be attained instantaneously. This format has gained popularity due to the speed and high response rates.

**Personal interview surveys** can be effective for maintaining a respondent's attention. In this format the interviewer is present in order to explain difficult directions hopefully leading to better responses. This type of interview is common in the retail and industrial setting. To reduce the cost of locating consumers, interviews are sometimes performed on-site. A random selection of consumers is questioned. Having a well-trained interviewer helps to decrease the chance of biasing the response.

There are a number of negatives to the personal interview survey. It is more expensive than a mailing or phone call, and at times the respondents won't objectively answer all questions, especially ones dealing with sensitive family issues.

**Observation** can be used for data collection. With observation, researchers try to learn what the subject does naturally. Observations should not influence the consumer's behavior. Observation methods are common in advertising research.

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#### **D. Data Analysis and Interpretation**

Data analysis and interpretation is critical in analyzing the market. What does this information mean? Can one use the data in a constructive way to define the problem and then establish a plan? In quantitative research, this step most often involves statistics. In the marketplace one can find many statistical packages (computer-based) to analyze the data.

It is impossible to collect data on every person in a select population; therefore samples are necessary. A sample population is a part of the relevant population. How well the sample reflects the relevant population dictates its validity. Results from a sample that is not representative will negatively impact your marketing.

Example of Poor Sampling: A store manager has his staff conduct phone surveys during the hours that the store is open. The survey is conducted between 11:00 am and 2:00 p.m. This survey does not represent the general population, as it doesn't include people who work during those hours. The sample will only assess individuals who don't work or just happen to be home then. The quality of the research data is another consideration. The data must be valid - in other words, you must be measuring what you want to measure. A poorly worded question can be ambiguous, leading to incorrect information.

In addition to sampling and validity issues, marketing managers must make sure the data supports the conclusions drawn. This is the interpretation step. Despite use of the correct statistical tool and accurate calculations, the interpretation could be wrong. Example of Data Misinterpretation: In a survey, parents were asked to rank five infant car seats for ease of use. They were to rank the seats in order from "most preferred" to "least preferred." One car seat was ranked first by slightly more respondents than any other car seat. The researchers reported that it was the most liked car seat by parents with infants. They failed to report that 70 percent of the respondents preferred that particular car seat least. So, the first-ranked car seat was most preferred by only 30 percent of the parents.

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#### **E. Fostering Ideas And Problem Solving**

In this step, the research results are used to make marketing decisions. The findings should be applied in marketing planning. If the research doesn't provide the information necessary to make these decisions, the company, whether small or large, has wasted its time, money and manpower on unnecessary data. The final step must be anticipated throughout the entire process.

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#### **F. Marketing Plan**

This six-step process of market analysis is critical in designing a marketing plan that is tailored to your specific product or service. The process can be extremely helpful in disclosing a significant but previously

unrecognized problem. By finding and focusing on the real problem, the researcher and business owner can move quickly to a useful solution.

A marketing plan shows the specifics of how you will market or attempt to sell your product or service. To reiterate the purpose of this discussion, the marketing plan is to provide you with guidance in analyzing your market. Various resources and software packages are available to enhance your marketing efforts. Software packages are numerous and include:

*Business Plan Pro*, Palo Alto Software

*Small Business Advantage*, Encore Software

*Jay Conrad Levinson's Guerilla Marketing*, Houghton Mifflin Interactive

If you have an established business with products or services you are currently selling, you must first reflect and assess where you are, whether you currently do marketing, and how effective that has been. Utilize the following Interactive Marketing Worksheet as the final step before designing and implementing your marketing plan.

### Interactive Marketing Worksheet

What are we trying to market?

Product: \_\_\_\_\_  
Service: \_\_\_\_\_

How effective has our marketing effort been to date?

Why are we interested in developing a market plan at this time?

Check all that apply:

- Increased product or service line
- Expansion of area we hope to sell to
- New product or service offered
- To increase sales
- Company restructuring, bad public relations in the past
- Other

Who is responsible for the development of a market plan?

- Self
- Employee

- Contracted service
- New position, will recruit and hire

What dollar amount is allocated to marketing?

Are you willing to increase that amount?                      YES NO  
What percentage of total sales is allocated to marketing?      \_\_\_\_\_%

What is our specific goal of marketing? This must be objective so it is measurable, i.e.:

To increase sales to current clientele by 5 percent within nine months and to maintain that level or further increase.

To develop five new customers per month

Goal: \_\_\_\_\_

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On a final note, do not jump into marketing before analyzing your market. The soft drink example clearly demonstrates a costly mistake.

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## IX. Resources

### Books

W.D. Bygrave, "The Portable MBA in Entrepreneurship" (John Wiley & Sons, 1994)

E.J. McCarthy, W.D. Perreault, "Basic Marketing: A Managerial Approach" (Irwin, 1990)

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