

How to Conduct a Low Cost Market Research A Step by Step Guide to Marketing Research Strategies

By BizMove Management Training Institute

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1. What is Marketing Research?

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

Basically, the purpose of marketing research is to 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 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 products' values?

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 and dislikes which can be affected by hundreds of influences, many of which simply can't be identified. Marketing research does, however, try to learn about markets scientifically. That simply, is to gather facts in an orderly, objective way; to find out how things are, not how you think they are or would like them to be; what people want to buy, not just what you want to sell them.

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2. Why Do It?

It's tough - impossible - to sell people what they don't want. (Remember the Nehru jacket?) That's pretty obvious. Just as obvious is the fact that nothing could be simpler than selling people what they do want. Big business has to do market research to find that out. The same reason holds for small business.

business owners often have a "feel" for their customers - their markets - that comes from years of experience. Experience can be a two-edged sword, though, since it comprises a tremendous mass of facts acquired at random over a number of years. Information about markets gained from long experience may no longer be timely enough to base selling decisions on. 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.

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3. How Do You Go About It?

You probably do some market research every day in the course of your routine management activities without being aware of it. You check returned items to see if there's some pattern. You ask one of your old customers, who has stopped coming to your shop, why he hasn't been in lately when you run into him on the street. 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 following flow chart shows the steps in the marketing research process:

Define problem (limit and state clearly)

Assess available information

Assess additional information, if required:

review internal records and files

Interview employees

Consult secondary sources of information

Interview customers and suppliers
Collect (or have collected) primary data
Organize and interpret data
Make decision
Watch the results of the decision

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4. Defining the Problem

This, the first step of the research process, is so obvious that it is often overlooked. Yet, it is the most important step of the process.

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.

In defining your problem list every possible influence that may have caused it. Has there been a change in the areas your customers have traditionally come from? Have their tastes changed? Put all the possible causes down. Then set aside any that you don't think can be measured, since 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. Put your idea of the causes in writing. Look at it frequently while you're gathering your facts to keep on track, but don't let it get in the way of facts, either. (Incidentally, while this Guide speaks of "problems," the same techniques can be used to investigate potential opportunities too.)

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5. Assessing Available Information

Once you've formally defined your problem, you should assess your ability to solve it immediately. 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 only be wasting your 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've got to make a subjective judgment to 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 ask yourself how much making a wrong decision will cost and to balance that against the cost of gathering more data to make a better informed decision.

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6. Gathering Additional Information

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

One business owner found that addresses on cash receipts allowed the pinpointing of customers in his market area. With this kind of information he could cross reference his customers' address and the products they purchased. From this information he was able to check the effectiveness of his advertising placement.

Your customer's addresses alone can tell you a lot about them. Obviously you can pretty closely guess your customers' life-styles by knowing what the neighborhoods they live in are like. 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, too. In addition to the always valuable addresses of real live customers, they give you information about customers' jobs, income levels, marital status. Granting credit, so it can be seen, is a multi-faceted marketing tool - though one with well-known costs and risks.

When you've finished checking through your records, go 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 your store or service - the ones the customers don't think important enough to take to you owner-manager. They are also aware of the items customers request that you may not stock. Employees can probably also give you pretty good seat-of-pants customers profile from their day-to-day contacts.

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7. Going Outside for Marketing Research Data

Once you've exhausted the best sources for information about your market, your internal data, where do you go? Well, the next steps in the process are to do primary and secondary research on the outside.

Secondary research first

Naturally, since it's called secondary research, you do it before you undertake any primary research. Secondary research simply 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.

For example, say you sell tires. You might reasonably 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 the replacement tires 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 previous to that. Repeating this exercise with car sales five years ago and so on, you might find that in each case tire sales were about 10 percent of the new car sales made three years before. You could logically conclude that the total market for replacement tire sales in your area this year ought to be about 10 percent of the new car sales in your locality three years ago.

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

There are many sources of such 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.

Primary research, the last step

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

Primary research is often divided into "reactive" and "nonreactive" research. The "peanut shell study" at the beginning of this Guide is an example of nonreactive primary research: it was a way of seeing 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 probably what most people think of when they hear the word "marketing research." It's the kind best left to the experts, since you may not know the right questions to ask. There's also the danger that either people won't want to hurt your feelings when you ask them their opinions about your business or they'll answer questions the way they think they are "expected" to answer, rather than the way they really feel. If you feel you can't afford high-priced marketing research services, ask nearby college or university business schools for help.

8. 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.

License plate analysis

In many states license plates give you information about where a 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, how about tracing your competitors' customers using the same approach 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. As noted before, knowing where your customers live can give you an excellent idea of the way they live and what they are 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 customers must use to get a discount on some sale item in your broadcast ads. This technique may also 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 they dressed? How old do they appear to be? Are they married? Do they have children with them? This technique is obvious and most owner-managers get their feel for their clientele just this way. But how about running a tally sheet for a week keeping track of what you're able to tell about your customers from simple outward clues? It might just confirm what you've thought obvious all the time, but it might also be instructive.

9. Customer Survey

If you are a business owner, these questions are for you. Have you conducted your own private interview of customers? Have you personally talked to at least 50 to 60 customers to find out what they like or dislike about your business, products and service?

A personalized business survey is a simple thing to prepare and implement. If you do it regularly, you can find when and where things are breaking down in your service.

Use a piece of 8.5 x 11 inch paper with the following types of yes and no questions:

1. Is the service we provide meeting your highest expectations? If not, what areas can we improve?

yes _____ no _____

1. _____

2. _____

3. _____

2. Are we providing the brands and lines you want and expect? If not, please list what is needed.

yes _____ no _____

1. _____

2. _____

3. _____

3. Is our business clean and pleasant to be in at all times? How can we improve it?

yes _____ no _____

1. _____

2. _____

3. _____

4. Do you feel the business is truly a part of the community?

yes _____ no _____

5. Is it a friendly place?

yes _____ no _____

6. Are the prices competitive?

yes _____ no _____

7. Do you feel you are getting good values?

yes _____ no _____

You may want to include more specific questions, but the key is to keep the survey short and to the point. Keep it personal by preparing and signing it yourself. Leave room for written comments.

Questionnaires should not be stacked at the cash register for casual distribution. Personally present them to customers along with a self-addressed, stamped envelope.

What can you learn from this? Plenty. What can customers learn? Well, it shows you care and that is always a sales plus.

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10. 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 are shifting 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 garbage.

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