

Chapter 4

Market research

Businesses regard having an understanding of the market place as a major priority. This is because of the following factors:

- the expense of launching new products;
- the importance of maintaining market share;
- the importance of preserving the profile and brand value of existing products.

After all, businesses like Proctor and Gamble (whose portfolio includes Gillette, Fairy, Ariel, and pet food IAMS, etc.) spend over £5 billion a year on worldwide marketing. Therefore, when it comes to designing new products or moving into new markets, businesses do not particularly like taking a leap in the dark. They need to understand their markets, in order to design products and marketing campaigns that meet the needs of customers. Market research undoubtedly reduces risk.

The objectives of market research

Market research is the process of collecting information and data about a business's customers, the market place and the activities of competitors within that marketplace.

The intention is to gather evidence that can enable marketing and production decisions to be made in a more scientific way than would otherwise be possible.

Businesses will attempt to do the following:

- **Discover the needs of customers** – who are these customers and how many are there likely to be? What motivates them to purchase the product? How much are they willing to spend?
- **Understand the structure of the market** – market research needs to tell the business managers if the market is subdivided or segmented or if the market is separated by geographical differences, socioeconomic differences or other differences.
- **Discover whether or not market demand is increasing**, in order that future sales predictions can be made (this is called the 'extrapolation of trends'). What might be the sales and profit potential of the product or service and its likely future success?
- **Establish at what stage is the product in its life cycle** – is it near maturity or in decline? From this information the business can then consider if it is worth investing in the product – for example, should extension strategies be used?
- **Test consumer response to new products or services**. Once consumer reactions have been discovered, product adaptation and development can be undertaken to meet consumer needs.
- **Assess the effectiveness of previous promotion campaigns**. Have the intended aims been achieved? Questions asked will reveal if the target market knows of the product, its uses, brand values and purpose?
- **Monitor competition and understand the activities of existing, new and potential competitors**. What are their strengths and weaknesses in relation to their products/services, finances, pricing, distribution and packaging?

Types of market research

Primary research

Also known as *field research*, primary research gathers first-hand information. This means that the data gathered is new (primary data), and should be directly relevant to the needs of the business. Primary research is carried out when there is a need to collect information which is specific to the business and its products or services.

Methods of primary (field) research:

- **Questionnaires** – these are designed to gain specific information, based on a series of questions. Questionnaires are often carried out face-to-face, but information is increasingly gathered through postal surveys and online.
- **Focus groups** – these meet regularly to have chaired discussions on themes set by a market researcher. Political parties often use these so that they can understand the issues that are of greatest concern to different groups within a population.
- **Consumer panels** – these are similar to focus groups, but are more product orientated, and are made up of consumers of products. The objective here is to gain opinions on different aspects of a product, such as taste, packaging and shape. For ongoing long-term research, consumers can be asked to keep diaries of their shopping and consumption behaviour. Market researchers will then examine the diary and ask follow-up questions.
- **Test marketing** – this is often used after a product has moved through development stages and is nearly ready for launch. This is a trial release of the product in a restricted area, designed to gather customer responses. Once responses have been gathered, changes based on these responses may be made to the product before the final launch. Test marketing is one of the best ways of finding out if potential customers like the product, and is often used by the film industry. Cinema audiences can be shown the same film before general release, but with different endings, and responses to the alternative endings will be judged.

Secondary research

Secondary research involves the use of previously collected information. So with secondary (or desk) research, the information used has not been gathered specifically for the business, but is instead adapted for its use. Secondary research data is often more easily available and accessible at a lower cost than primary research.

Methods of secondary (desk) research:

- **Official publications** – traditional methods of desk research have involved using official publications. The most popular for desk research are census reports and social trends surveys; this information is available online.
- **Industry magazines** – many industries produce their own 'industry magazine', which provides a wealth of information on specific retail and product areas. One of the best known examples is *The Grocer*, a 'must-read' for all food retail marketing professionals.
- **Yellow Pages** – this business telephone listing gives basic details of businesses operating in different market sectors. For example, if you are considering setting up as a local dog grooming service, first check to see how many others do the same. *Yellow Pages* are, of course, available online, along with other equivalent listings which provide the same basic information.

- **Internal information** – the use of a business’s internal information, such as sales and customer data figures has boomed as a source of useful data over the last two decades. Database profiles are used more and more, and data can be gathered by the use of loyalty cards. Using the database created, retailers are able to build up detailed profiles of their customers and their spending habits. This information is then used to create targeted marketing, improve customer service and even alter product ranges. Businesses have learned that adapting to the specific needs of existing customers and directly applying marketing to these needs is a sure-fire way of increasing customer loyalty and revenue from these customers.
- Online desk research – this offers a huge range of potential information. There is an incredible amount of data available online, on the internet, but of course sorting out what is useful from the rest can be difficult. Competent IT businesses can gather user and customer profiles, by the process of registration and customer comments on websites. For start-ups, simple Google searches often provide relevant data.



Field and desk research
<http://bit.ly/23cbYXZ>

Who undertakes the research?

Field research is an expensive and time-consuming activity and because of this businesses are turning more and more to market research companies. These market research companies are continually gathering data from questionnaires, census reports, trade information sheets, sales figures etc. From the information gathered they develop a comprehensive database on the spending patterns of consumers, market activity, etc. This data can be interpreted in a way that meets the research needs of the customer’s business. This use of data that was previously collected by market research companies is in essence desk research, but it is quite usual for findings from this sort of desk research to be refined by further field research.



Market research
<http://bit.ly/1QkYUdq>

What's the difference between quantitative and qualitative research?

Quantitative research

Quantitative research aims to gather information based on facts that can be tested.

By asking closed questions that allows the collection of data, quantitative research findings will lead to objective conclusions and hypotheses that can be tested. They are statistically valid. Findings must be in a mathematical form, or they can be interpreted using figures.

For example – What is the average income of our customers? What is their weekly spending on food? How often do they take foreign holidays? The requirements of this type of market research can be stated in very specific and set terms.

With the use of quantitative research, subjective judgements (based on opinion) can be eliminated; findings should be clear and unambiguous. But the questions asked are often closed in nature, not leading to fuller responses. This means that quantitative research fails to encourage continuous investigation.

Quantitative research sets a pattern of research with little potential for following up or developing findings. After carrying out quantitative research, research leaders could be left asking questions like 'why is this pattern of spending shown?'

Qualitative research



Qualitative or quantitative

<http://bit.ly/1QbkzmC>

The importance of sample size market research

A **sample** is a group of respondents to a market research exercise who are selected to be representative of the views of the target market as a whole. The size of the sample used is very important as it needs to be large enough to make the data statistically valid. When a business decides upon an appropriate market size for a survey it must bear in mind two issues:

- If the sample size is very large the research will take a long time and may prove to be very expensive.
- If the sample size is too small then there is a greater chance that random factors will make the results inaccurate.

This gives large businesses with big marketing budgets a significant advantage over smaller businesses – a good example of an economy of scale.

Bias is something that may cause data within a sample to be weighted towards one side. Such statistical bias occurs when a sample has an overweighing towards one subgroup – for example, too many teenagers between the ages of 16–19 within a research sample. To avoid bias and collect data that is statistically valid, sampling methods, such as random sampling and quota sampling, must be used to determine the market research sample. With questionnaires (as with all forms of research) it is important to gather data from a sample that reflects the whole population.

Random sampling – every member of the population has an equal chance of being interviewed.

- This is not easy to achieve and must not be confused with haphazard sampling.
- Random samples are drawn from local electoral registers and interviewees are contacted at home.
- The interviewer must call three times before giving up on the address – this is to overcome the fact that busy people are those least likely to be at home at certain times.
- Attempting to achieve randomness in this way creates expensive fieldwork costs so many businesses tend to adopt quota sampling instead.

Quota sampling – the population is segmented into a number of groups which share specific characteristics.

- The sample is often segmented on the basis of age or sex – known as the demographic profile.
- Therefore, if it is known that 20% of your buyers are men, interviewers would be instructed to interview one man for every four women in the sample.
- This is a relatively cheap method of sampling compared to many others.
- Results using quota sampling cannot be regarded as statistically representative of the population – they are not randomly chosen.

Discussion themes

In what ways is this method of research useful to Asda?

Asda observational research

<https://www.youtube.com/watch?v=3f-lmYUTB70>

Teacher video on marketing, introducing market research.

Market research – customer needs

<https://www.youtube.com/watch?v=WPTz5uJJXPQ>

Define and give examples of primary and secondary data.

Explain the reasons why secondary data may be misleading.

Using examples from the video describe three methods of primary research.

Using examples from the video describe three methods of secondary research.

A short film (4.50) showing test marketing in Columbus Ohio.

Adventures in test marketing

<https://www.youtube.com/watch?v=7wx5B2p8qyg>

Why is Columbus chosen as a site for test marketing?

Money spent on market research would be better spent on other business functions. Discuss.

When it comes to making marketing decisions quantitative data is a better tool than qualitative data. Discuss.

Explain why an understanding of market data is an important part of future business success.