

Researching your market

A guide for business operators in South Australia



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01 Overview

You might have a brilliant idea for a product or service, but an idea alone is not enough. You must clearly identify your target market—the people who will purchase your product or service to satisfy their needs.

Continually monitoring the market and your target market in particular, is essential for business success. This involves getting to know who your customers are, where your product or service fits into the market, what your competitors offer and what the needs of your target market are.

Market research is the way to get answers to these questions. Don't let the term frighten you. Market research can be low-cost and much of it can be undertaken yourself if you follow an orderly process. This guide outlines the benefits of market research, describes the steps involved and offers practical tips to get you started.

Readers are advised:

- The purpose of this guide is to provide general introductory information.
- The guide does not purport to contain all the information that would be relevant to any particular business opportunity.
- The guide is provided to interested persons on the basis that they will be responsible for making their own assessment of that opportunity with the assistance of the information provided.
- All figures contained in the guide should be regarded as estimates only based on general samples and may be subject to error.
- The information in the guide should not be relied upon in substitution for professional advice and individual investigation.
- Persons interested in pursuing any particular business opportunity are strongly advised to fully inform themselves by taking professional advice as to the extent of their rights and obligations—particularly in relation to any proposed investment.
- The guide is provided subject to the terms of the formal disclaimer, which appears on the last page.

02 What is market research?

Market research describes the method you use to determine the size, characteristics and nature of your market. It tells you about the market and its preferences, opinions, habits and trends. It can also indicate where the market is, its geography, its demographics (statistical characteristics) and information about the psychology of the market.

As a small business owner, you cannot afford to make a large investment in something that may not work. While you naturally want your business to be a success, this cannot be guaranteed. However, the results of market research can help to reduce some of the risks you will take.

One of your greatest thrills could be to learn something about your market, for example finding an unsatisfied need that gives you a vital competitive edge. Market research also enables you to attach numbers to your plans and verify your marketing strategy.

03 Questions that market research can answer

If you are thinking about going into business, develop a checklist of questions that you would like answered by market research to ensure that you obtain all the data you need. Your checklist may look like this:

CHECKPOINT	NOTES
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What are the long-term trends that will affect my business?

Where should I locate my business?

How much business can I expect if I open at a certain location?

Will people purchase my products or services?

Who are my competitors?

What range of products or services do my competitors offer?

What level of sales do my competitors generate?

Who are my customers likely to be? (age, gender, income, occupation).

What types of products or services do my prospective customers want?

What types of products or services do my customers not want?

What type of advertising will attract customers to my business?

03 Questions that market research can answer

If you are already in business, your business records will offer a wealth of information that should be assessed before you seek additional data. Customers' names and addresses, for example, will give you a sense of your market area. They will also tell you where your customers are located. You may be able to direct your advertising dollars to these areas. By talking regularly to your customers, you will learn about their attitudes, occupations, interests and buying habits.

Market research conducted by an established business is likely to have different aims.

Australian Bureau of Statistics (ABS) census data can provide useful information:
www.abs.gov.au / Tel: 1300 135 070.

Internet searches provide much information. Other sources of data might include Government departments, local councils or Industry and Business Associations relevant to your intended product or service.

Sometimes the data/information that you need is not already available. In these cases you will need to either collect the information yourself or in conjunction with a research consultant or agent.

Develop a checklist, tailored to the needs of your business, of what you would like to know. Your checklist may look like this:

CHECKPOINT	NOTES
To whom is my advertising directed? Is it reaching them?	
Is there a change in my customers' spending habits?	
Have my competitors made any recent changes?	
What services should I offer my customers?	
Should I be offering more than I offer now?	
Should I vary my trading hours?	
Should I establish another outlet?	
What changes have occurred in the market?	
What scope exists to increase my prices?	

04 Finding relevant information

Although you can gather data from a wide range of media, information sources can be classified into two main categories—primary sources and secondary sources.

Use the following checklist to determine the sources you can obtain the information required to address your research needs.

CHECKPOINT	APPLICABLE?		NOTES
	Y	N	
Primary			
Customers	<input type="checkbox"/>	<input type="checkbox"/>	
Employees	<input type="checkbox"/>	<input type="checkbox"/>	
Field studies	<input type="checkbox"/>	<input type="checkbox"/>	
Focus groups	<input type="checkbox"/>	<input type="checkbox"/>	
Friends and relatives	<input type="checkbox"/>	<input type="checkbox"/>	
Personal experience	<input type="checkbox"/>	<input type="checkbox"/>	
Personal interviews	<input type="checkbox"/>	<input type="checkbox"/>	
Postal surveys	<input type="checkbox"/>	<input type="checkbox"/>	
Questionnaires	<input type="checkbox"/>	<input type="checkbox"/>	
Suppliers	<input type="checkbox"/>	<input type="checkbox"/>	
Telephone surveys	<input type="checkbox"/>	<input type="checkbox"/>	

04 Finding relevant information

CHECKPOINT...CONTINUED	APPLICABLE?		NOTES
	Y	N	
Secondary			
Accountants	<input type="checkbox"/>	<input type="checkbox"/>	
Advertising agencies	<input type="checkbox"/>	<input type="checkbox"/>	
Austrade	<input type="checkbox"/>	<input type="checkbox"/>	
Australian Bureau of Statistics	<input type="checkbox"/>	<input type="checkbox"/>	
Bankers	<input type="checkbox"/>	<input type="checkbox"/>	
Business Enterprise Centres	<input type="checkbox"/>	<input type="checkbox"/>	
Chambers of Commerce	<input type="checkbox"/>	<input type="checkbox"/>	
Conferences and seminars	<input type="checkbox"/>	<input type="checkbox"/>	
Consultants (management and marketing)	<input type="checkbox"/>	<input type="checkbox"/>	
Federal government departments and agencies	<input type="checkbox"/>	<input type="checkbox"/>	
Industry sources	<input type="checkbox"/>	<input type="checkbox"/>	
Internet	<input type="checkbox"/>	<input type="checkbox"/>	
Libraries	<input type="checkbox"/>	<input type="checkbox"/>	
Local government	<input type="checkbox"/>	<input type="checkbox"/>	
Newspapers	<input type="checkbox"/>	<input type="checkbox"/>	
Professional associations	<input type="checkbox"/>	<input type="checkbox"/>	
Professional forecasters (BIS Shrapnel, IBIS)	<input type="checkbox"/>	<input type="checkbox"/>	
Shopping centre management	<input type="checkbox"/>	<input type="checkbox"/>	
State government departments and agencies	<input type="checkbox"/>	<input type="checkbox"/>	
TAFE SA	<input type="checkbox"/>	<input type="checkbox"/>	
Trade journals	<input type="checkbox"/>	<input type="checkbox"/>	
University research organisations	<input type="checkbox"/>	<input type="checkbox"/>	
Yellow Pages	<input type="checkbox"/>	<input type="checkbox"/>	

05 How to conduct your market research

It is important that your research is undertaken in an orderly manner. The five steps that you should take are described in the following checklist. Practical tips have been included to guide you with their implementation.

Also refer to the following more detailed sections in this guide:

- 07 Collecting data (P11)
- 08 Collating data (P12)
- 09 Analysing data (P13)

CHECKPOINT

Steps (what to do)	Practical tips (how to do it)
1. Establish the aims of the intended research	<p>Decide exactly what you wish to know. e.g. Is there demand for my product or service? Will the market continue to purchase my product or service if prices are increased?</p> <p>Determine what issues are involved in the research. Establish the scope of the research. Identify what constraints (time, money etc.) may limit the scope of the research. Set some measures of success that will help you to evaluate the outcomes of your research.</p>
2. Plan your research	<p>Identify potential sources of information—these may be primary or secondary. Determine what research methods (observation, surveys, focus groups etc.) will achieve the best outcomes. Consider your sample size and how respondents will be chosen.</p>
3. Collect information	<p>Keep a constant eye on your budget during this phase as this is where costs can be incurred quickly. Use the primary and secondary sources that you determined in the planning phase.</p> <p>Be flexible in overcoming practical setbacks e.g. respondents not wishing to participate, others not at home when you call etc.</p>
4. Analyse and interpret the information you have gathered	<p>Tabulate and categorise the information. Analyse and interpret information with a view to determining what choices you may have. Assess and rank the alternatives which emerge through this process.</p>
5. Reach a conclusion	<p>Decide on the option which will best satisfy your objective(s). Be wary of any gaps in the information. Implement your decision. Evaluate the alternative you have chosen against the success factors you established.</p>

06 Designing and using a survey questionnaire do's and don'ts

The quality of information gained through market research is often influenced by how well the survey questions are constructed.

Make sure your questions are clear and, do not contain jargon your audience may misunderstand, follow a logical order, are presented in a way that is visually easy to follow and do not suggest a desirable response.

A significant number of research tools have a set of questions at their heart, so it is worthwhile making sure you follow some tried and proven methods.

The do's:

Pilot test your survey questions before you use them in the wider market to determine:

- If the people being surveyed understand the questions?
- Are their responses specific?
- Do they have the opportunity to expand on their answers?

Design questions to obtain the essential information you need.

Apply this test to each question you compile—can the answer be measured? Exercise care if the answers cannot be counted or categorised in some way.

Keep your questions brief and clear.

Keep your questionnaire as brief as possible, especially where it is intended to conduct telephone interviews.

Ask all general questions (age group, gender, location etc.) first to determine whether the respondent forms part of your sample group.

Follow up 'yes' or 'no' responses, where appropriate, with a 'why?'.

Ask questions which you will be able to interpret easily. Complex questions can lead to long, complex answers.

Ensure the questions you intend to use are readily understood by a wide range of people.

Be honest with the intent of the questionnaire.

Be considerate of each respondent's commitment of time.

Treat the people you are interviewing in the way that you would like to be treated.

The don'ts

Don't ask questions that are likely to offend.

Don't answer the questions for respondents.

Don't be alarmed or upset by any answers you receive. e.g. If a respondent says that he or she has never heard of your product or service or business name.

Do not argue about an answer to a question.

07 Collecting data

DEFINE YOUR TARGET POPULATION

Your target population is the people or product or service you want information about. The target population is made up of units. For example: if your target population was housed within a 10km radius of your preferred business location, each house within the 10km radius would be a unit.

DO YOU HAVE AN ACCURATE LIST OF ALL THE UNITS IN YOUR TARGET POPULATION?

For household surveys you may choose not to use a list but for business surveys, you must have an accurate list of the units that make up your target population. Your list needs to contain all and only the units that make up your target population and each unit must only appear in your list once. If you are surveying businesses you might include the name of business, contact person, address, an identification number, and size indicator such as turnover or number of employees on your list.

CENSUS OR SAMPLE

In a census, data is collected from every unit in the target population. In a sample, data is collected from a subset of the target population. Because you are going to fewer units, a sample is generally quicker and cheaper than a census. However, a sample must be correctly designed and selected if you want to be able to say something about the total population.

If you decide to use a sample, you should get expert advice on its design before proceeding with collecting your data. There are two types of sampling method: **Random sampling** and **Non-random sampling**.

RANDOM SAMPLING

In simple random sampling each unit in the target population has an equal chance of being included in the sample. A Cross lotto draw is a good example of simple random sampling. Here a sample of 6 numbers is randomly generated from a population of 45 with each number having an equal chance of being selected. More complex forms of sampling such as **stratified sampling**, build on simple random sampling. These more complex methods are all designed to improve the efficiency of the sample for a given population.

NON-RANDOM SAMPLING

Non-random sampling techniques are often cheaper and quicker than random sampling techniques and do not always require a complete listing of your target population. The disadvantages of non-random sampling methods are they usually have a bias in the results and the information gathered is not representative of the total target population.

Methods of collecting data

After deciding on a census or a sample, you will need to decide how you are going to collect your data. You will need to design a questionnaire to gather the information you require.

Make sure your questions are clear and cannot be misunderstood, do not contain jargon your audience may not understand, do not suggest a desirable response, do follow a logical order, and are presented in a way that is visually easy to follow. To collect your data you can either conduct a personal interview or get respondents to fill out the form themselves. Personal interviews can be face to face, or by telephone. Having people complete their own questionnaire is usually cheaper and you can access more units in a much shorter time.

However, the response rate is much lower, often around 30%, which requires a larger sample in order to get enough responses for your data to be meaningful. You can use hard copy questionnaires or electronic forms that can be electronically mailed and completed using the internet for example. For hard copy forms there are four ways to get responses: mail-out mail-back; mail-out pickup; hand deliver pickup; and hand deliver mail back.

08 Collating data

Once you have your forms back you will need to have some way of collating the data. A simple method is to enter the responses into a spreadsheet or an analysis package. Alternatively, you might choose to engage an agency to process the data for you. Remember to check your data for errors such as wrong values entered and answers which do not make sense.

ESTIMATION

Estimation is a mathematical technique for producing information about a population based on a sample of units from that population. Different sampling techniques require different estimation techniques. It is not always necessary to generate estimates. If you are using a sample, seek professional advice on whether you need to produce estimates and what technique is appropriate.

09 Analysing data

Having collated your own data, or obtained existing data from other sources, you will then need to summarise the data into tables that you can interpret directly or use as a basis for drawing graphs. You may wish to do this by hand or you can use a spreadsheet. Below is an example of what your table might look like.

READING A TABLE

Look at the title of the table. What is it about? What is the time frame? In this case the table is about candy bars sold during June 2011. What is the source of the data? In this case the source is our fictional vending machine proprietor VMP Pty Ltd. Look at the row totals and the column totals, they will give you an overall picture of what is happening in the data. Look at the row labels and column labels, they will tell you what the numbers represent. For example: looking at the left label "Site 1" and the column label "Total", you can see that **the total number of candy bars sold at Site 1 in June 2011, was 217.**

CANDY BARS SOLD IN THE MONTH OF JUNE 2011 BY LOCATION AND BY WEEK

Location	Week No.					Percent	Average	Median	LQV	UQV	Highest	Lowest	Range
	1	2	3	4	Total								
Site 1	45	55	50	67	217	7.01	54.25	52.5	47.5	61	67	45	22
Site 2	30	39	37	52	158	5.10	39.5	38	33.5	45.5	52	30	22
Site 3	30	37	23	31	121	3.91	30.25	30.5	26.5	34	37	23	14
Site 4	22	27	31	34	114	3.68	28.5	29	24.5	32.5	34	22	12
Site 5	150	4	140	145	439	14.18	109.75	142.5	72	147.5	150	4	146
Site 6	162	2	160	165	489	15.79	122.25	161	81	163.5	165	2	163
Site 7	50	340	55	60	505	16.31	126.25	57.5	52.5	200	340	50	290
Site 8	34	46	50	42	172	5.55	43	44	38	48	50	34	16
Site 9	100	130	122	107	459	14.82	114.75	114.5	103.5	126	130	100	30
Site 10	95	111	117	100	423	13.66	105.75	105.5	97.5	114	117	95	22
Total	718	791	785	803	3097	100	774.25	788	751.5	797	803	718	85

In this table a number of simple analysis methods have been used.

To calculate a **percentage share** divide the value of interest by its relevant total and multiply by 100. For example, Site 1's percentage share of total candy bar sales is:

Total sales Site 1/Total sales All Sites multiplied by 100 = $(217/3097) \times 100 = 7.01\%$ of total candy bar sales for all sites.

To calculate an **average** add all the relevant values together and divide by the total number of values included. For example, the weekly average for June 2011 for Site 1 is:

$(\text{Week 1} + \text{Week 2} + \text{Week 3} + \text{Week 4}) / \text{Total number of Weeks} = (45+55+50+67)/4 = 54.25$ candy bars per week.

09 Analysing data

To calculate the **median** or **middle** number, first rank the values from lowest to highest. Next divide the number of observations plus 1 in half and locate the number which corresponds to the middle value. For example:

Candy bars sold at Site 1: 45, 55, 50, 67
4 Weeks + 1 = 5
5/2 = 2.5

Other simple measures included in the table are the highest and lowest values and the range of values. The **range** is the highest number in the data minus the lowest number in the data.

USING GRAPHS

A simple method of summarising data is to draw a graph. Graphs can give you an instant picture of what is happening in your data but you must be careful of jumping to conclusions about what the graph is showing you. Look at the title of the graph, the labels on each axis, and the scale of each axis. Look below the surface. What is the measurement unit? If its dollars, is it hundreds, thousands or millions? Does the scale start at zero? Is it a wide scale with few points or a narrow scale with many? Make sure that what you think you see is really the true picture by checking the table of data the graph was drawn from.

There are many different types of graphs. Column graphs or vertical bar graphs have short labels and are good for showing comparisons. Horizontal bar graphs are better for longer labels. Dot charts can display many data values without looking cluttered. Line Graphs are good for displaying information over a time period.

Following are two examples of using graphs. Example 1 is a column graph and example 2 is a line graph.

The 2.5th value in your ranked list is the middle value. Therefore, your middle value sits half way between 50 and 55.

$(55+50)/2=52.5$. Your median number of candy bars sold in June 2011 for Site 1 is **52.5** candy bars per week. To calculate the **lower (LQV)** and **upper (UQV) quartile values** use the same method as you used for calculating the median.

Lower quartile value:

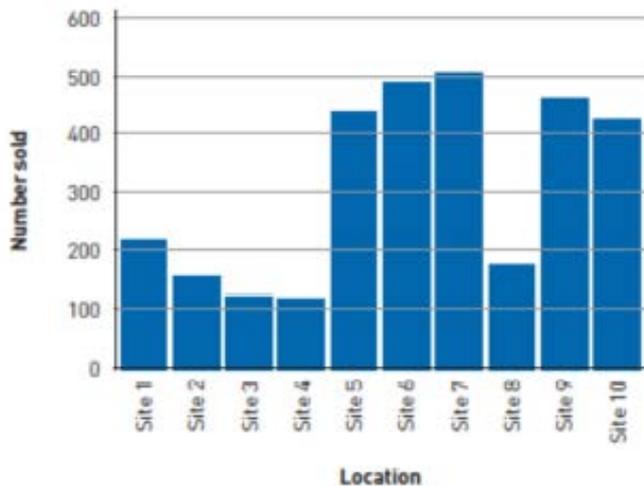
$(2 \text{ Weeks} + 1)/2$
= 1.5th value
 $=(45+50)/2$
=47.5

Upper quartile value:

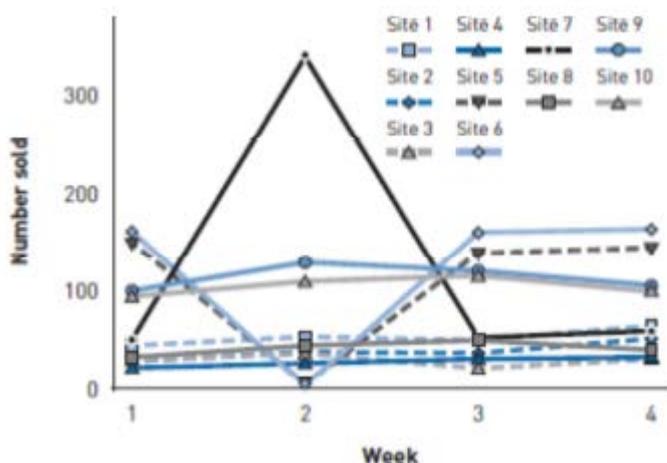
$(2 \text{ Weeks} + 1)/2$
=1.5th value
 $=(55+67)/2$
=61.0

09 Analysing data

TOTAL CANDY BARS SALES JUNE 2011 BY LOCATION



CANDY BARS SALES JUNE 2011 BY LOCATION AND BY WEEK



MAKING COMPARISONS

Always make sure you have the complete picture. In the column graph of total sales by Site, Site 7 looks like the best performing location. However, looking at the line graph of sales by week, you can see that Site 7 was only high when Sites 5 and 6 were very low. You would need to investigate why this occurred as potentially, Sites 5 and 6 are the best performing locations.

If you are using data from different sources, make sure the method used to collect the data and the definitions used are the same. In the case of comparing financial accounts, you should create common size accounts by dividing all the numbers by total assets. This allows comparisons between companies of various sizes.

If the collection method or definitions are not the same, you may have to analyse what each collection of data says on its own rather than make comparisons. If you are using data which covers different time periods, be aware of anything that might have affected the numbers. In our candy bar example, the candy

09 Analysing data

machines at Sites 5 and 6 broke down so the workers went across the road to the rarely used machine at Site 7. Sometimes you might want to know if what you see happening in one number has anything to do with what is occurring in another number. From the line graph, it looks like what happened at Site 7 had something to do with Sites 5 and 6 but to be certain you would have to check with the Site owners. In more complicated cases, statistical tests can be used to determine if a relationship exists.

BRINGING IT ALL TOGETHER

Once you have completed your preliminary analysis, you need to draw all the pieces of information you have together to make decisions. Return to the questions you identified at the beginning of the process and use the results of your analysis to answer them.

10 Summary

- 1** *Market research is about gathering, analysing and interpreting information for decision-making purposes and being better informed than your competition.*

- 2** *One of the keys to successful market research is to have a clear purpose in mind before you begin.*

- 3** *Market research will enable you to answer such questions as what products or services to sell, where, in what quantities and at what prices, what competitors are selling, where they are and how strong they are.*

- 4** *Primary and secondary sources can be used as part of the process of gathering research information.*

- 5** *Provided you follow an orderly process, there is a lot of market research that you can do yourself. Professional assistance should be sought where necessary.*

- 6** *The design of an effective survey questionnaire is important in getting the right information for your business.*

Department of State Development

GPO Box 320

Adelaide SA 5001

T: +61 8 8226 3821**E:** DSDSmallBusinessStrategy@sa.gov.au**W:** www.statedevelopment.sa.gov.au/smallbusiness**DISCLAIMER**

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