

# Understanding Customer Needs

## What an entrepreneur needs to know

The entrepreneur has come up with what he/she believes is a good business idea. But, how does the entrepreneur check that the business idea actually meets customer needs and has the potential to become a viable business? The answer is to do some **market research**.

**Market research** for a start-up or small business needs to focus on the fundamental issues, such as:

- How big the market is (measured by sales, volume etc)
- How fast the market is growing ) & the market growth potential
- Who the existing competitors are and their share of the market
- How the market is divided up into segments ("segments" are the different parts of a larger market – e.g. low price or high quality)
- What kind of customers there are in the market. It is important to know what their preferences are in terms of when and where they buy, and the prices they pay

The main purpose of the market research is to help the entrepreneur find a position in a **niche market** that will enable the business to charge a reasonable **price** and to earn reasonable **profits** once the business has been set-up and established.

**A niche market is a smaller part of a large market where customers have quite specific needs and wants.**

Here are some examples of how niche and mass markets compare:

Industry	Niche Market	Mass Market
Holidays	Trekking in Nepal	Beach holiday in Ibiza
Motor cars	Porsche 911 Turbo	Fiat Uno
Eating out	Exclusive restaurant	Burger King
Chocolate	Hotel Chocolat	Cadbury's Dairy Milk
Magazines	Snowboard UK magazine	Hello! Magazine

Why should start-ups and small businesses aim for a market niche? Because surviving in high volume or **mass-market** segments is almost impossible. Mass markets are dominated by well-established businesses that enjoy lower costs and can charge lower prices than a smaller business. In other words, a start-up will face stiff competition if it tries to set-up in a mass market.

An entrepreneur needs to be satisfied that there is likely to be a **demand** for the product. However, at the start-up stage, funds are often in short-supply which restricts how much market research can be carried out.

However, don't worry. Effective market research is not about getting hold of lots of statistics or detailed reports. **It is about getting the right information to make good decisions.**

Remember that a small business can learn much about the market by simply trading, talking to customers and suppliers on a day-to-day basis and reading the trade newspapers and magazines.

## Primary and secondary research data

An important distinction can be made between two broad kinds of market research data:

**Primary data:** data collected first-hand for a specific purpose by the entrepreneur

**Secondary data:** research data that already exists and which has been collected for a different purpose.

For a start-up, it is most likely that secondary research will be the main source of market research. This is because it cost less and is quicker & easier to obtain. **Gaps in knowledge can be filled with some primary research.**

There are many good sources of secondary data, and the good news for an entrepreneur is that many of them are free! Here are some examples:

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<b>Google</b>	A great way of getting quick market research for free
<b>Government departments</b>	Provide detailed insights on the economy and on many industry sectors
<b>Trade associations</b>	Most industries have an industry association - they are a great source of market analysis
<b>Trade press &amp; magazines</b>	Essential reading for an entrepreneur, particularly if he/she has little or no experience of the market
<b>Competitor websites &amp; marketing materials</b>	Valuable information on marketing activities of competitors
<b>Market research reports</b>	Mintel and Keynote produce a wide variety of expensive reports that analyse individual markets

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By its nature, secondary research will vary in terms of its usefulness to a start-up – after all, it has been created for a different purpose, it may be out-of-date and it might be biased.

However, secondary research has many advantages to a start-up:

- The information is readily available (particularly online) – so research can be done right now!
- It is generally cheaper than primary research; in many cases it is free
- Good secondary research provides an excellent overview of a target market

In most cases, a start-up will still have gaps in its understanding of a market even after looking at the available secondary data. **Primary research** can help fill these gaps.

It is best to think of primary research as the way that the entrepreneur gets answers to the important commercial questions that need answers before trading begins. For example:

- What do potential customers think of my new product or service?
- How can I obtain supplies of the right goods at the best price?
- What price should I charge?
- What is the best way of reaching potential customers? (e.g. via the Web, retail, direct mail)

The problem with primary research is that it is usually **time-consuming and expensive**. Getting a market research agency to do the primary research is one option, but the costs are high and the entrepreneur must wait for the results. Accordingly, most primary research by a start-up is conducted by the entrepreneur, often informally.

There are various methods of primary research:

Method	Comments
<b>Observation</b>	Watching how consumers behave provides many insights, but can leave questions unanswered. Observation works well in retail markets; sit outside a shop and watch how many people walk by, look at the window display etc
<b>Postal surveys</b>	Sent to the address of potential customers who complete the form and send back in a pre-paid envelope. Relatively cheap, a postal survey can cover a wide geographical area and avoids the potential for interviewer bias. However, response rates (the proportion of people sending back a completed survey) are often very low and it can take a long time before enough surveys are returned
<b>Telephone interviews</b>	Not to be confused with “telesales” (which is a method of selling), the telephone interview allows quicker feedback than a postal survey. However, potential customers are often wary of being called and may be reluctant to give anything other than short answers
<b>Online surveys</b>	Increasingly popular and relatively low cost, online surveys are widely used by small businesses as a way of capturing the views of existing and potential customers
<b>Face-to-face surveys</b>	Personal interviews conducted face-to-face. A costly, but good way to get detailed insights from an individual
<b>Focus groups</b>	Groups of potential customers are brought together to discuss their feelings about a product or market. Focus groups are a good way of getting detailed information about customer tastes and preferences
<b>Test marketing</b>	This involves selling a new product in a small section of the market in order to assess customer reaction. For example, a start-up could start by selling to a limited local area in order to iron-out product

issues. Software firms often test-market their products by offering “beta” versions for testing by a small group of potential customers. Test marketing can be a good predictor of how a new product or service will be received by the larger market (provided that it can be kept secret from competitors!)

## Quantitative and qualitative research

The distinction between primary and secondary research is really about the different **sources** of market information. A different way of thinking about market research is to consider the two main **approaches** – qualitative and quantitative.

### *Qualitative research*

Qualitative research is based on **opinions, attitudes, beliefs and intentions**. This kind of research deals with questions such as “Why”? “Would?”, or “How?”

Qualitative research aims to understand why customers behave in a certain way or how they may respond to a new product. Given that these opinions are often obtained from small numbers of people, the findings are not necessarily statistically valid. However, such data can highlight potential issues which can be explored in quantitative research.

Focus groups and interviews are common methods used to collect qualitative data. This kind of data is often revealing and useful, but it is costly and time-consuming to collect, particularly for a start-up.

### *Quantitative research*

This is research based on larger samples and is, therefore, more statistically valid. Quantitative research is concerned with data and addresses question such as “how many?”, “how often”, “who?”, “when?” and “where?”

The results of quantitative research will generally be numerical form – for example:

- 35% of customers rate the new product as “attractive”
- 70% of potential customers use the Internet to buy their hotel accommodation in Dorset
- 3 out of 5 customers will buy a new food product after being offered a free in-store sample

The main methods of obtaining quantitative data are the various forms of surveys – i.e. telephone, postal, face-to-face and online.