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Market research – the key to understanding your customers

Market research is defined as the systematic and focussed collection of information on customers and markets for analysis and subsequent usage in formulating your marketing strategy. It is critical in finding out what your customers and potential customers think and for discovering what their wants and needs are. As shown in the diagram ‘marketing cycle’ research fits into the overall marketing cycle by providing input to the analysis. This, when accompanied by internal analysis of strengths, weaknesses and offerings, and competitive analysis provides the basis for deciding and then developing the marketing strategy.

Why do you need to understand your customers?

Unfortunately in the real world you do not operate as a sole supplier and customers have choice. They can choose either to take your offering or someone else’s. Marketing is about understanding customers’ needs and wants and then crafting your offering to be as close to those needs as possible so that they buy yours. Note that wants and needs are not the same and it is critical to understand the difference between them or you will be focussing on the wrong driver:

Wants are what a person desires and are aspirational (e.g. I want a Mont Blanc pen – but maybe I only want something to write with and will buy a pencil or a ball point pen, or maybe just some other form of communication – or is it just a fashion accessory or perhaps a status symbol that says something about me (conspicuous consumption)

Needs are what people/firms must have to carry on what they are doing (at the basic personal level: food, shelter, clothing etc [cf Maslow’s ‘Hierarchy of Needs’]). When it comes to the crunch – customers will buy to satisfy their needs.

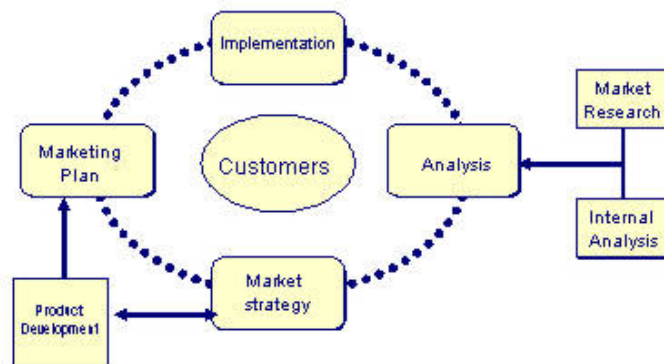
Linking needs to wants, however, is usually a very productive marketing strategy because, normally, the closer that you can make a customer feel that wants and needs are aligned the more successful you will be. Offering something that feels like a Rolls-Royce but for the budget of a family saloon could be a winner (but at what cost?!). When Japanese car makers entered the UK market they focussed on cheap cars with features as standard that were extra on other cars – i.e. they met real needs for transport but included aspirational wants for other features (tape players etc) at needs prices – and took significant market share. Advertising often links this aspirational aspect of our lives to needs by linking glamorous lifestyles (e.g. Martini) or sex (e.g. Obsession) or ‘cool’ (e.g. Specsavers) to products.

Market research is how you find out what customers **Need**.

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Why carry out research?

Marketing cycle



By collecting and analysing information that is relevant it enables you to make informed and robust decisions as an input into subsequent action. The objectives of research include:

- defining and evaluating your place in a market;
- providing information regarding future trends in demand ;
- identifying customer needs and requirements;
- discovering what they think of you and your offerings;
- uncovering ways to delight your customers further;
- providing an evaluation of advertising and promotional strategies and their content;
- revealing opportunities for business development and improved competitiveness;
- discovering opportunities for increasing profit/product penetration.

You may use research to address any or all of these issues

There are two types of research:

Desk research; and **Field research;** and it is important to understand the difference between them. Desk research is usually easier and almost invariably much cheaper. It may not of course provide you with precisely what you need and, therefore, you may have to resort to field research.

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Desk research

Before commencing any external study and commissioning field research it is always worth asking – has it been analysed before. This is usually easier and quicker and the scale of information you can access has been altered radically by the explosion of information you can obtain over the internet. This allows you to access all (published) information globally on a subject. The surprising thing about the internet is that so much is available – and for free! - although an unfocussed search over the internet may take a long time and result in masses of data which will take forever to analyse. Information can come from two sources – external and internal. Typical examples of external desk research include:

- Public library searches;
- press clippings;
- sector and published surveys;
- trade information;
- Internet trawls;
- Books and other publications.

Where you have a large customer base then this should also be part of your desk research. Understanding your current customer patterns of usage will give valuable information on what is successful and what is not. One of the major benefits of effective and up-to-date customer records is that it should facilitate the analysis of your own customer base. This will allow you to analyse:

- Purchases made;
- Comparisons with peer customers;
- Patterns of consumption;
- Profit from products;
- Product penetration.

This will provide you with unique insights as no one else will have this information. It might be necessary and desirable, however, to look externally as well – either for purposes of benchmarking, market trend analysis or competitor analysis.

Field research

This is where you have to go out and find out information first hand by talking to current and potential customers. The major types of types of field research include:

- Telephone research;
- Written questionnaires;
- Street interviewing;
- Face to face interviewing;
- Product tests;
- Consumer panels;
- Focus groups;

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All these techniques have a role to play in collecting information but they result in different ‘cuts’ of information and some may not be appropriate. You must decide on which are the best techniques and having obtained the information - analyse the results.

One of the criticisms levelled against market research is that it is merely a ‘front’ for selling. This is called ‘sugging’ and it really upsets people, involving as it does lies - whether directly or by ‘evasion’ or ‘omission’. It can also have far reaching and damaging effects on your relationships as people complain and will also affect the value of the exercise making it largely unproductive.

Whenever market research is undertaken, there are six crucial questions – to which you must have appropriate, detailed and supportable answers prior to commissioning the research:

The Sample	Who are you going to ask?
The Method	How are you going to ask them?
The Questions	What are you going to ask them?
The Results	What will you do with the information?
The Cost	How much do you want to pay for the answer?
The Time Scale	By when do you need the information?

These are explored in detail below and in general apply equally to personal and corporate markets:

The Sample

The number of people asked is an important consideration as if you asked just one person you would get a very accurate picture of her views on anything (probably) but this would not necessarily be representative of the world at large and may lead you down a completely blind alley. How many then should you ask? and what sort of people? How many do you need to ask – is it millions, hundreds of thousands or what? Clearly there is a cost implication as the number increases; both in terms of carrying out the research and also in analysing and interpreting the resulting data. Fortunately a lot of research has been carried out into this area and some surprising conclusions have emerged. When you ask a number of respondents (known as the ‘population’) the same questions, after a certain number the percentage difference in the answer ceases to vary very much, or at least if it does then the degree of likely error can be calculated with a high degree of accuracy.

This number is known as a ‘**statistically significant number**’ and although it needs to be calculated for each type of question, the numbers are surprisingly low. For consumer goods it is in the low hundreds and even for such emotive issues such as politics it is only in low thousands. Key points are that the sample must be homogeneous i.e. sharing the important characteristics – e.g. four-wheel car drivers in the home counties, or British owners of Portuguese villas in the Algarve; in order that the data is comparable and that conclusions are meaningful and also of course targeted. This classification is known as segmentation (see separate paper ‘Segmentation – slicing and dicing the cake of customer spend’).

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The Method

There are several methods of obtaining the information as mentioned above and key characteristics of each are explored below.

Telephone research

Using the telephone to collect has one great advantage – it is cheap. One researcher can make many calls in a day without leaving an office. It is also both very focussed as you are initiating the call and it is fast as interviews do not take long and the elapsed time to complete the exercise is also short.

There are some drawbacks however – often people do not like to receive unsolicited calls and it can be very difficult to use in a corporate – business to business - environment. It relies on a structured script and on obtaining answers in the same manner (e.g. interviewers tick boxes on template in front of them).

Written questionnaires

This is probably the most common method of research and everyone will be familiar with it in one form or another. Unless used in the right circumstances it can be a passive method reliant on people to complete and return them and in this case inertia rules and only those with a grievance or an axe to grind return them. By combining it with other activities however, such as checking out of an hotel, installing new software, sending in the guarantee form, or making it part of the application process for loans or life insurance and other services it can be turned into an effective method of research.

To be really effective it is best to use questionnaires that ask for boxes to be ticked or strength of agreement to statements to be indicated (see below). This has the advantage that it is easier and faster for the recipient to complete and also allows direct comparability of answers. It will not perhaps have the same depth as, say, a qualitative survey where respondents write comments; but if it is drawn up well then it is very useful and can cover more subjects than the qualitative type.

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Types of questionnaire

There are several types of questionnaire and each is designed to explore different aspects or elicit different responses. Some of the more common include:

- Dichotomous
- Multiple choice
- Importance
- Bipolar
- Likert
- Rating scale 1 – 5
- Buying propensity

These can be used in any combination as long as the questionnaire is not too long and it is focussed.

In the fictitious examples below the data is merely illustrative.

Dichotomous

This is a fairly typical basic type of question, not too intrusive and merely asks you to answer yes or no. As such it cannot assess the degree of feelings in between the poles:

Do you eat whale meat?
Yes No

Multiple choice

This is a question offering three or more answers – and allows a greater breadth of response.

Which products do you have? – circle those applicable:

<input checked="" type="checkbox"/> Current	<input checked="" type="checkbox"/> Deposit A/C	<input type="checkbox"/> Mortgage	<input type="checkbox"/> Loan	<input type="checkbox"/> O/D
<input type="checkbox"/> Life cover	<input type="checkbox"/> Contents	<input type="checkbox"/> Buildings	<input type="checkbox"/> ISA	<input type="checkbox"/> PEP

Importance

In this type of question the respondent is asked to rate the importance of an issue to them on a scale of 1 to 5

Having a butcher in my village is:

1	2	3	4	5
extremely important	<input checked="" type="radio"/> very important	somewhat important	not very important	not at all important

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Bipolar

The question asks for a response to be marked between two opposite ends of the scale:

How would you describe the local branch of ASDA					
Convenient	x				inconvenient
Friendly			x		unfriendly
Service oriented		x			unhelpful
Efficient				x	inefficient

Likert

This question examines how strongly the respondent agrees with a statement and can help assess the feelings of customers towards issues.

Building societies generally give better service than banks?				
strongly agree	agree	neither agree nor disagree	disagree	strongly disagree
1	2	3	4	5

Rating scale

This question type rates the replies in terms of a scale from e.g. poor to first class. As with all these types of questions it is sometimes necessary to have an even number of boxes (e.g. 4) to avoid the middle of the road response commonly taken by those trying to avoid making a stand.

How would you rate the service from your local library?				
First Class	Good	Fair	Poor	Very Poor
1	2	3	4	5

Buying propensity

This type of question is trying to elicit a customer's future intentions by asking whether they might buy a product and can help assess the needs and likely take up of a new product if developed. Care needs to be taken with these questions as they may reflect wants rather than needs!

If a multi-change CD was standard in a car would you be more likely to buy it?				
definitely	probably	unsure	probably not	definitely not
1	2	3	4	5

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All of the above are **quantitative** type questions. What they ask is for a response within pre-defined parameters that allows input into spreadsheets and hard analysis.

Although this facilitates the input into data analysis sheets and subsequent number crunching - the respondent is not allowed to say what they think. They can only answer the question by marking the pre-designated boxes. This is of course of immense use – especially if the questionnaire has been well thought through and piloted. Sadly this is often not the case and many are rather poor! As a result you do not get the qualifying comment that can often express her real feelings.

Qualitative questions can allow more freedom for answers but are much harder to analyse as each respondent will use her own words. Often the question will be couched along the lines of:

Describe in your own words your opinion of your local garage.

This has the advantage that the respondent can say what she likes, which can yield very interesting information that might not have been thought of at design phase; but on the other side, that she can also respond in an unlimited and often unconstructive manner, making analysis much harder.

Whichever question types are used they must always be designed with the express intention of:

- a) inconveniencing the customer as little as possible;
- b) being aimed at an homogeneous segment; and
- c) having been designed to elicit specific information that supports your marketing initiative.

Street interviewing

This an effective method of data collection although not always the most cost effective as it involves people's time as researchers and may involve lots of non-value added interactions for every useful interview.

Usually the researcher is situated in a busy street and asks a few questions to eliminate candidates and ensure homogeneity (known as screening questions) before either thanking them or passing on to the next set of core questions. This is to ensure that the quote sampled is representative and statistically significant.

It is almost exclusively used in consumer research. Segments chosen must be wide enough to be meaningful but also focussed to support the conclusions you require to achieve.

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Face to face interviewing

This is basically a structured conversation. The interviewer should have a one or two sheet guide to the questions that they want to ask. These should be ordered so as not to give too much information to the interviewee to avoid prejudicing their views.

E.g. asking 'Do you like XYZ chocolate?' before you ask 'Of which chocolates are you aware?' will prejudice the answers.

You must:

- confirm the interview beforehand with a letter, email, or fax
- be on time, and make sure the interview doesn't overrun
- guide the conversation gently, but firmly
- if the interviewee is difficult then make your excuses and leave

Product tests

These are widely used, especially in the consumer markets.

The manufacturer selects a group of potential buyers and offers a pre-production sample for people to use or sample, on agreement that they report back their findings.

They are not very useful in service industries.

You should:

- use experienced personnel ;
- choose an appropriate place to hold the tests (e.g. for food outside a supermarket, for audio equipment in a hall);
- make sure that everyone who participates is given a questionnaire to complete;
- circulate during the event to get off-the-cuff remarks, and record these for later analysis.

Consumer panels

Consumer panels, also called Omnibus surveys, are where pre-segmented panel members fill in diaries regularly.

Panel members are usually recompensed by gifts or 'points'.

- You must:
use a specialist firm.

Note - This is usually for Fast Moving Consumer Goods (FMCG) only due to its nature – not many people take out loans every week or even month and car purchases usually happen every two or three years.

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Focus groups

These are basically moderated group discussions but can be extraordinary useful in getting information out of people.

The format is as follows:

- an audience of between 6 and 12 people, with selected backgrounds is invited to the meeting. This takes place in a comfortable room (e.g. like a drawing room);
- a moderator or facilitator (often using visual aids) explains the purpose of the focus group and may give some background to the topic;
- the group is then invited to discuss the relevant issues. The discussions are usually recorded (or notes are taken by an assistant);
- the moderator guides the discussion to make sure that it stays on the subject;

You must:

- ensure that the audience represents the desired segment(s);
- make sure that the audience is relaxed and feel free to speak;
- ensure that the quieter members of the group are given a chance to speak as well;
- The quality of the moderator is crucial. Specialist firms are usually employed to maximise value from the exercise.

Note a free lunch with a group of people is not a focus group!

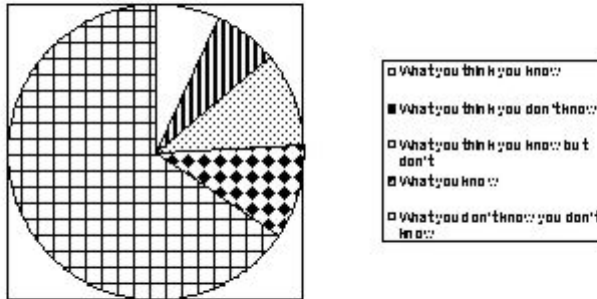
The Questions

In order to make informed decisions about anything you need the correct information. This must be based on analytical data and gives you the knowledge to make the decisions. One of the things that often emerges from research is that you actually know a lot less than you thought you did.

(See diagram)

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Knowledge is power



What you know is a lot less than you think.

You must have the right level of information to make an informed decision

You must take especial care therefore in framing the questions to ensure that you receive the correct output. The type of research chosen will also affect the type of questions. There are two types of questions:

Quantitative - based on numbers or fixed answers – e.g. what percentage do you pay on your mortgage, or how much are your monthly life premiums?

Qualitative - based on words – how do you feel that your account has been handled in the last year?

Quantitative answers are generally much easier to analyse but qualitative answers can give you more valuable insights into what people really think.

The Results

What will you do with the information? It is critical that you think this through **before** starting any research. What you want to do with the information should shape the nature of the questions and possibly even the manner in which it is collected. It will certainly affect the analysis and any conclusions drawn.

The Cost

How much do you want to pay for the answer? The cost of market research can vary widely: from thousands of pounds to many millions spent by multinationals on major consumer brands. It is relatively easy to assess the cost of market research and the procedure to follow is:

- scope out the activities that you think will be needed (e.g. 1000 telephone calls, 200 face to face interviews etc.) assess the amount of time input that this requires (see below for a guide);

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- identify the daily cost of either your own staff or employing people of the right calibre to do the work;
- add in the preparation time for questionnaires and the time to analyse and write up the reports.

A brief guide to Researchers time:

- Telephone calls - around 8 to 10 completed calls per working day. Note that to get 10 interviews completed will probably require 50 to 100 calls to be made;
- Face To face interviews - typically only two face to face interviews can be accomplished a day, and if travel to other towns is required, then this may fall to one – this is to allow time for the interview to be completed and written up;
- Street Interviewing: around twenty to thirty a day may be accomplished depending on the questions;
- Group discussions: Set aside at least a day for administration and a half day for the group. Don't forget that more than one person is required to run a group interview;
- Written questionnaire: Typically a response of between 1% and 3% is considered normal.

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The Time Scale

Work backwards from when the results are required to get start date. Produce a bar chart (sometimes called a Gantt chart) showing the various steps and the interrelationship between each of them. Typically the stages will be as follows:

- scope the project;
- set-up phase (e.g. hiring or contracting staff, preparing questionnaires, samples, purchasing mailing lists);
- Desk Research - looking to see what already exists;
- test phase (sometimes called piloting). Test a small sample of people to check your approach ;
- research - There may be a number of phases, one leading to another;
- analysis - takes longer than you might think as you may have to revisit some answers for confirmation or clarification so leave plenty of time for this!;
- reporting - a written report should be prepared setting out the modus operandi and the results and if relevant conclusions and recommendations, and to provide a reference document.

Summary

Market research can be a very valuable tool for assessing true needs and wants in a market place. To be effective, however, it must be structured, focussed on segments and analysed in the context of the results desired. The key steps are:

- scope the project – which segments to research, objectives (what do you want to know, when, etc);
- agree budget – very important!;
- set-up phase (e.g. hiring consultants/advisors, preparing questionnaires, samples, purchasing mailing lists);
- Desk Research - looking to see what already exists;
- Field Research:
 - test phase (sometimes called piloting) test with a small sample of people to check your approach;
 - main research - there may be a number of phases, one leading to another;
 - analysis;
- reporting - a written report should be prepared for the benefit of others in your firm, and to provide a reference document.

It is better to get outside help as specialist firms have:

- experience;
- techniques;
- skilled staff that can yield results faster than in-house operation
- no prejudice or bias;
- flexibility;
- a greater degree of anonymity which can be critical.