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What is market research?

Business activity will only be successful if the output produced can satisfy people's wants and needs. Information about the things people want and need will help businesses to decide what to produce. This information is often found through MARKET RESEARCH.

Market research can be defined as the collection, collation and analysis of data relating to the marketing and consumption of goods and services. For example, a business might gather information about the likely consumers of a new product and use the data to help in its decision-making process. The data gathered by this research might include:

- whether or not consumers would want such a product;
- what type of promotion will be effective;
- the functions or facilities it should have;
- what style, shape, colour or form it should take;
- the price people would be prepared to pay for it;
- where people would wish to purchase it;
- information about consumers themselves - their ages, their likes, attitudes, interests and lifestyles;
- what consumers buy at present.

Some, mainly smaller or local, businesses have just a few customers who are well known to them. For these businesses, information about their markets can be relatively easy to find. This may be through personal and social contact with their customers. Such businesses, however, must be careful that they do not misread their customers' views and actions. Other businesses, both small and large, have a more distant relationship with their customers. This may be because they have a large number of customers, operate in a range of different markets or market their products in international as well as national markets. For these businesses, market information may be less easy to come by. Such businesses often find that in order to gather marketing information they need to use sophisticated marketing research methods.

The terms **market research** and **marketing research** are usually used interchangeably in business books and in the media. This is the approach taken in this book. Some have suggested a distinction between the two terms. Market research, they argue, is about researching consumers' preferences and tastes. Marketing research is a wider term, which also includes the analysis of marketing strategies, for example the effect of promotions such as advertising.

The uses of market research

A market is anywhere that buyers and sellers come together to exchange goods and services. Markets are in a constant state of change. As a result, a business is likely to use market research on a regular basis for a number of reasons.

Descriptive reasons A business may wish to identify what is happening in its market. For example, a brewery may want to find trends in its sales of various types of beer over a certain period, or to find out which types of customer are buying a particular beer.

Predictive reasons A business may wish to predict what is likely to happen in the future. For example, a travel company will want to discover possible changes in the types of holiday that people might want to take over the next two to five years. This will place it in a better position to design new holiday packages that will sell.

Explanatory reasons A business may want to explain a variety of matters related to its marketing. This may include sales in a particular part of the country. A bus company, for example, might wish to research why there has been a fall in the number of passengers on a specific route.

Table 1: The scope of market research

Area of research	Possible elements to be considered
The market	Identifying market trends Discovering the potential size of the market Identifying market segments Building up a profile of potential/actual consumers Forecasting sales levels
Competition	Analysing the strengths and weaknesses of competitors Identifying relative market shares Identifying trends in competitors' sales Finding information on competitors' prices
Promotion	Analysing the effectiveness of promotional materials Deciding upon choice of media for promotions
The product	Testing different product alternatives Identifying consumer wants Developing new product ideas Assessing consumer reaction to a newly launched product
Distributing the product	Identifying suitable retail outlets Exploring attitudes of distributors towards products
Pricing the product	Discovering the value consumers place on the product Identifying the sensitivity of the demand for the product to changes in its price

Market research

Exploratory reasons These are concerned with a business investigating new possibilities in a market. For example, a soft drinks manufacturer could trial a new canned drink in a small geographical area to test customer reaction before committing itself to marketing the product nationally.

Once a business has decided how it wishes to use market research data, the next stage is to identify the aspects or areas that it wants to concentrate on. Table 1 shows the different areas that could be researched and some possible elements that might be considered in each.

Secondary research

SECONDARY or DESK RESEARCH involves the collection of SECONDARY DATA. This is information which **already exists** in some form. It can be internal data, from records within the business or external data, from sources outside the business.

Internal data This may be collected from existing business documents or other publications, including the following.

- Existing market research reports.
- Sales figures. The more sophisticated these are the better. For example, sales figures which have been broken down according to market segments can be particularly useful.
- Reports from members of the sales force resulting from direct contact with customers.
- Annual Report and Accounts published by businesses.
- Businesses increasingly make use of company intranets to provide up-to-date information. These are restricted to company employees. But some information may be available on the Internet on company websites.
- Stock movements. These can often provide the most up-to-date information on patterns of demand in the market. This is because they are often recorded instantly, as opposed to sales figures, which tend to be collected at a later date.

External data Secondary data will also be available from sources outside the business. Individuals or other organisations will have collected data for their own reasons. A business might be able to use this for its own market research. Examples are given below.

- Information from competitors. This may be, for example, in the form of promotional materials, product specifications or price lists.
- Government publications. There are many government publications that businesses can use. These include general statistical publications such as *Social Trends*, the *Census of Population* and the *Annual Abstract of Statistics*. Many are now online.
- Data from customer services on complaints which have been received about a product.
- The European Union. The EU now provides a wide range of secondary data which can be highly valuable to businesses operating within EU countries. Such publications include *Eurostatistics*, which is published by

Table 2: Advantages and disadvantages of secondary or desk research

Advantages

- It is relatively easy, quick and cheap to collect, especially if the sources that exist are known. This makes it very useful for smaller businesses.
- Several sources may be used. This allows the data to be checked and verified.
- Historical data may be used which can show a trend over time.
- It can be used before carrying out secondary research, which helps to establish the most useful questions to be asked in questionnaires.

Disadvantages

- Data is not always in a form that a particular business would want because it has been collected for another purpose. Adapting it may take time and become expensive.
- Data may be out of date and not relevant, especially in fast changing markets.
- Researchers must be aware of bias. For example, company reports and accounts may show figures in the best possible light to satisfy shareholders.
- There may have been problems with the research. For example, the footnotes to research may state that the sample used was too small and that the results may be inaccurate as a result.

Eurostat (the Statistical Office of the European Union).

- International publications. There is a huge amount of information about overseas marketing published each year by organisations such as the World Bank and the International Monetary Fund.
- Commercial publications. A number of organisations exist to gather data about particular markets. This information is often highly detailed and specialised. Mintel, Dun & Bradstreet and Verdict are examples of such organisations.
- Retail audits. The widespread use of Epos (electronic point of sale) has meant that it is now much easier to collect detailed and up-to-the-minute data on sales in retail outlets such as supermarkets and other retail chains. Retail audits provide manageable data by monitoring and recording sales in a sample of retail outlets. Businesses find these audits especially helpful because of the way in which they provide a continuous monitoring of their performance in the market. A well known example is data on the best selling records or CDs which make up weekly music charts. This information is collected from retail outlets in the UK.

- General publications. A business may use a range of publications widely available to members of the public for its market research. These include newspaper and magazine articles and publications such as the *Yellow Pages*.
- Internet website pages. Increasingly businesses make use of the Internet to search for secondary data outside of their own organisations. Many of the sources of secondary information above (including, for example, government publications) can now be found on the Internet.

Primary research

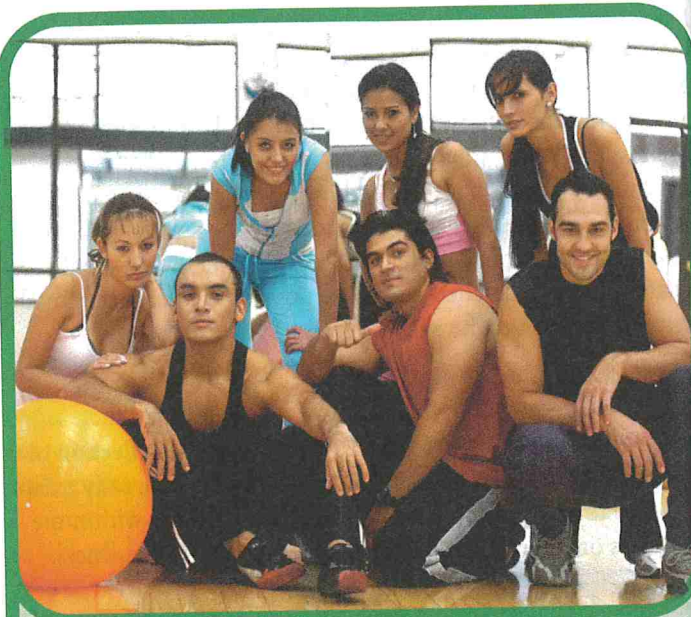
PRIMARY or FIELD RESEARCH involves collecting PRIMARY DATA. This is information which did not exist before the research began. In other words, it has to be collected by the researcher. It can either be carried out by a business itself or by a **market research agency**. Because of the high costs of using the services of a market research agency many small businesses choose to conduct market research themselves.

Most primary information is gathered by asking consumers questions or by monitoring their behaviour. The most accurate way to do this would be to question or observe all consumers of a particular product (known as the population). However, in all but a few instances this would be either impractical to carry out or expensive. It is usual to carry out a SURVEY of a SAMPLE of people who are thought to be representative of the total market. Methods of choosing samples are dealt with in the next unit.

Methods of primary research

There is a number of different field research methods a business can use. Many of these methods make use of QUESTIONNAIRES. A questionnaire is a series of questions designed to find out the views and opinions of a respondent. It must be designed to meet the needs of the business carrying out the survey. A poorly designed questionnaire may not obtain the results the business is looking for. There are certain features of questionnaires which are important in their design.

- The balance between **closed** and **open** questions. Closed questions, such as 'How many products have you bought in the last month?', only allow the interviewee a limited range of responses. Open questions, however, allow interviewees considerable scope in the responses which they are able to offer. Open questions allow certain issues to be investigated in great detail, but they do require a high degree of expertise from the interviewer. For example, an open question might be 'Suggest how the product could be improved'.
- The clarity of questions. The questions used must be clear and unambiguous so that they do not confuse or mislead the interviewee. 'Technical' language should be avoided if possible.
- The use of leading questions. Leading questions are those which encourage a particular answer. For example, a small shop wanting to find out about its consumer preferences for Coke and Pepsi should avoid the question: 'Do you



Question 1.

The local gym could be the new place for match making. A survey by Mintel found that around 19 per cent (1 in 5) of members have met good friends or partners there. Around 25 per cent (1 in 4) see it as a place to meet people with similar interests. 'Health and fitness clubs are now so much more than just somewhere to exercise and get fit... Clubs could look to organise more networking and evening socials for their members, while major dating agencies might like to consider acquiring a strategic stake in health and fitness clubs as a base for their activities,' said Mark Brechin, senior leisure analyst at MINTEL.

After a number of years of facing rising costs and competition MINTEL predicted a 9 per cent rise in revenue in 2006, compared with around 5 per cent in the recent past. The size of the market for leisure services was predicted to reach £2.5 billion, with more than 5 million visitors, and one in ten as club members. Most revenue (76 per cent) was from membership fees, but a growing amount comes from bars and personal treatments. This grew 32 per cent between 2002 and 2006. MINTEL's research also showed that among those adults who have never been to a health and fitness club, 8 per cent would be interested in using one. MINTEL also forecast impressive growth. The market value was predicted to reach £3.4 billion by 2012, increasing almost 40 per cent over the next five years, with the number of members set to reach 7.6 million. 'Competitive pressures and energy prices have eased off from their peak at the end of 2005 and the start of 2006. Meanwhile, consolidation within the industry has removed a lot of the discounting on membership and joining fees among the leading club chains,' explained Mark Brechin.

Source: adapted from www.mintel.com.

- If a health club seeking to research its market found the above report on the Internet would this be an example of primary or secondary research? Explain your answer.
- Explain, using examples from the article, how a health and fitness club might use the research conducted by Mintel for: (i) descriptive reasons; (ii) predictive reasons; (iii) explanatory reasons.

think that Diet Pepsi is better than Diet Coke? A better question would be: 'Which brand of diet cola do you prefer - Pepsi or Coke?'

- The questionnaire can provide **quantifiable** information. For example, it might tell a business that 75 per cent of its sales are to people below the age of 25 and only 25 per cent are to over-25s. It may be able to use this information to make decisions.
- Whether it is to be completed by the person carrying out the survey or completed by the respondent.

Personal interviews These involve an interviewer obtaining information from one person face-to-face. The interviewer rather than the interviewee fills out the responses to questions on a questionnaire, which contains mainly 'open' questions. The main advantage of interviews is that they allow the chance for interviewees to give detailed responses to questions that concern them. Long or difficult questions can also be explained by the interviewer and the percentage of responses that can be used is likely to be high. If needed, there is time and scope for answers to be followed up in more detail. Interviews, however, can be time consuming and tend to rely on the skill of the interviewer. For example, a poorly trained interviewer asking questions on a product she did not like may influence the responses of the interviewees by appearing negative.

IT-based research Advances in IT have led to the development of new ways in which businesses can carry out field research.

- Businesses are increasingly making use of Internet and email surveys, where customers can provide data on a business website or email directly to businesses' email addresses.
- Retail audits consist of information collected by retailers about consumers, usually at the point at which a purchase is made. Epos (electronic point of sale) data can be used, for example, to analyse patterns and trends in sales. Data gathered from retail audits is also valuable for identifying the types of consumers purchasing particular products.
- In the UK many shopping centres have devices installed which record where customers shop. Recorders have been developed which 'count' the number of customers entering a shop and some even differentiate between adults, children and pushchairs. The technology provides information which allows shops to see which areas of the centre attract most shoppers. It can also be used to compare shopping centres.
- Interactive methods can also be used to gather information. Consumers may be able to express their views via Internet websites or digital television. Information can be collected when orders are placed directly via the Internet or a digital television link.
- Spending patterns may be analysed from the use of credit cards and store loyalty cards. Loyalty cards allow customers to obtain a certain amount of benefits and discounts with each purchase they make within a shop or supermarket.

Question 2.

Vegran is a company that has developed a healthy lunch bar made from carob and oats. Initially, it has decided to sell the bar in the South West for a trial period, before launching the product throughout the country. Before this, however, it wants to collect views of consumers on the taste and appearance of the bar. It is particularly interested to find out whether consumers would notice a difference in taste between chocolate and carob and their views on the bar's size and packaging. Vegran is only a small company with a limited budget for its marketing projects.

- What potential advantages might test marketing have for Vegran?
- How useful might:
 - postal surveys;
 - consumer panels;
 - personal interviews;
 - Internet surveys;
 be to the business?

Telephone interviews This method allows the interview to be held over the telephone. It has the advantage of being cheaper than personal interviewing and allows a wide geographical area to be covered. However, it is often distrusted by the public and it is only possible to ask short questions.

Postal surveys These involve the use of questionnaires sent to consumers through the post. It is a relatively cheap method of conducting field research. It also has the advantage that there is no interviewer bias and a wide geographical area can easily be covered. Unfortunately, the response rate to postal questionnaires can be poor and responses can take as long as six weeks. In addition, questions must be short, so detailed questioning may not be possible. Questionnaires must also be well designed and easy to understand if they are to work.

Observation Observation is often used by retail firms 'watching' consumers in their stores. Observers look out for the amount of time consumers spend making decisions and how readily they notice a particular display. Its advantage is that a tremendous number of consumers can be surveyed in a relatively short space of time. However, observation alone can leave many questions unanswered. For example, it may reveal that a particular display at a supermarket is unpopular, but provide no clues as to why this is the case.

Focus groups These involve a group of customers being brought together on one or a number of occasions. They are asked to answer and discuss questions prepared by market researchers. The groups contain a range of individuals who are thought to be representative of the customers of the business or of a particular segment of customers. Because they only involve a small number of customers, focus groups are a relatively cheap and easy way of gathering marketing research information. A problem is that the views of a fairly small number of customers may not reflect the views of the market or the market segment

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in which the business is interested.

Consumer panels These involve a group of consumers being consulted on their reactions to a product over a period of time. Consumer panels are widely used by TV companies to judge the reactions of viewers to new and existing programmes. Their main advantage is that they can be used to consider how consumer reaction changes over time. Firms can then build up a picture of consumer trends. Their disadvantage is that it is both difficult and expensive to choose and keep a panel available for research over a long period.

Test marketing Test marketing involves selling a product in a restricted section of the market in order to assess consumer reaction to it. Test marketing usually takes place by making a product available within a particular geographical area. For example, before the Wispa chocolate bar was marketed nationally, it was test marketed in the North East of England.

The benefits of market research

A business may benefit in a number of ways from carrying out market research.

An aid to decision making Perhaps the main benefit of market research is that it allows a business to make more informed decisions. This is especially important in fast-changing markets. Businesses operating in such markets constantly need to adjust

Table 3: Advantages and disadvantages of primary or field research

Advantages

- Data can be collected that directly applies to the issue being researched. Secondary data will be data collected for another purpose.
- The business which initially collects the data will be the only organization with access to it. It can be used to gain marketing advantages over rival firms.
- Secondary data may be unavailable in a certain area.

Disadvantages

- It can be expensive to collect and may take longer than desk research
- The sample taken may not represent the views of all the population.
- If the research method is flawed, the findings will also be flawed. For example, a badly worded questionnaire may not provide the data a business requires.

their marketing activities.

Reducing risk While the reliability of market research information cannot be guaranteed, it does reduce risk for a business. Without market research, a business might spend large sums developing and launching a new product, which could prove to be unsuccessful. Businesses are less likely to waste resources on failed activities if careful marketing research is carried out.

Providing a link with the outside world Without market research might businesses operate in a vacuum. They would have little or no way of finding out the views of their actual and potential customers. They would also find it difficult to identify future trends in their existing markets and the markets in which they plan to operate in future.

Estimating the size of markets As markets become ever larger and as new markets open up, market research becomes ever more important. As markets get larger it becomes more difficult for businesses to operate without detailed information about the needs of their customers. This is because of differences in their tastes.

Public relations Carrying out market research may be good for the image of a business. Consumers may feel that their views are being considered. They may also think that the business is concerned that its customers are happy. This may lead to 'corporate' brand loyalty.

The problems of market research

If market research was totally dependable, businesses could use it when introducing or changing products and be completely confident about how consumers would respond to them. This would mean that all new products launched onto the market, which had been researched in advance, would be a success. Similarly, no products would flop because businesses would receive advance warning from their research and take any necessary measures.

In reality, things can be different. It has been estimated that 90 per cent of all products fail after they have been initially launched. Some of this may be put down to a lack of, or inadequate, market research. However, a number of businesses that have conducted extensive research among consumers before committing a product to the market place have launched products which have failed. Given estimates which suggest that the minimum cost of launching a new product nationally is £1 million, this is a risky business. Famous examples of thoroughly researched products which have turned out to be flops include the Sinclair C5, a cheap vehicle with more stability than a moped and lower costs than a car. In research, consumers enthused over this vehicle. In reality, it was almost impossible to sell. Similarly, when Coca-Cola launched 'New Coke' with a new formula flavour onto the market, research suggested it would be a huge success. In practice, 'New Coke' was quickly withdrawn from the shops.

Market research

Businesses want to be sure that the data they collect is reliable. One way of checking the reliability of data is to pose the question, 'If this information was collected again would the same or broadly similar results be obtained?' Businesses acting upon research data need to be sure that they can depend upon it. There is a great deal of debate among researchers about the reliability of different research methods. There is a number of reasons why **primary research** does not always provide reliable information for businesses.

- **Human behaviour.** Much marketing research depends upon the responses of consumers who participate in the collection of primary data. While the responses of consumers may be honest and truthful at the time, it does not mean that they will necessarily respond in the same manner in future. This is because all human behaviour, including the act of consuming and purchasing goods, is to some extent unpredictable.
- **Sampling and bias.** When carrying out market research, it is usual to base the research upon a sample of the total population. This is because it would be impossible and costly to include every person when dealing with a large population. It is possible, however, that results from the sample may be different from those that would have been obtained if the whole population had been questioned. This is known as a sampling discrepancy. The greater the sampling discrepancy, the less reliable will be the data obtained.
- As mentioned earlier, questionnaires need to be carefully constructed to avoid the problem of encouraging particular responses from consumers through the use of leading questions. Similarly, the behaviour of interviewers can affect the outcome of interviews.

Businesses must also be careful when using **secondary data**. For example, businesses may use a government publication to estimate the size of markets in which they might wish to operate. However, these market sizes may not always accurately match the product market being researched.

Quantitative and qualitative research

Data collected through desk and field research can be either quantitative or qualitative in nature. **QUALITATIVE RESEARCH** involves the collection of data about attitudes, beliefs and intentions. Focus groups and interviews are common methods used to collect qualitative data. An example of qualitative research could be face-to-face interviews with 100 purchasers of new Land Rover Discoveries to find out why they prefer this product to similar four wheel drives sold by other car manufacturers. The information collected through qualitative research is usually regarded as being open to a high degree of interpretation. This means that there are often disagreements within businesses about the significance and importance of qualitative research data.

QUANTITATIVE RESEARCH involves the collection of data that can be measured. In practice this usually means the collection of statistical data such as sales figures and market

share. Surveys and the use of government publications are common methods of collecting quantitative research data. An example of quantitative research would be a survey of four wheel drive owners in West Derbyshire to establish their places of residence, ages, occupations, incomes and gender. The information collected through quantitative research is usually regarded as being open to less interpretation than that collected through qualitative research.

KEYTERMS

- Confidence level** – a statistical calculation which allows a business to gauge the extent of its confidence in the results of research.
- Market or marketing research** – the collection, collation and analysis of data relating to the marketing and consumption of goods and services.
- Primary data** – information which does not already exist and is collected through the use of field research.
- Primary or field research** – the gathering of 'new' data which has not been collected before.
- Qualitative research** – the collection of data about attitudes, beliefs and intentions.
- Quantitative research** – the collection of data that can be quantified.
- Questionnaire** – a series of questions designed to find out the views and opinions of a respondent.
- Sample** – a selection of part of the population, which must be representative of the population to be effective.
- Secondary data** – data which is already in existence. It is normally used for a purpose other than that for which it was collected.
- Secondary or desk research** – the collection of data that has already been collected for another purpose.
- Survey** – where respondents provide information to researchers about their actions, habits, attitudes and perceptions.

KNOWLEDGE

1. Why is market research important to businesses?
2. Explain the difference between:
 - (a) descriptive research;
 - (b) predictive research;
 - (c) explanatory research.
3. State five areas that market research could concentrate on.
4. What is meant by desk research?
5. What is meant by field research?
6. Why might field research be of benefit to a business?
7. In what circumstances might:
 - (a) postal surveys;
 - (b) questionnaires;
 - (c) observation; be useful?
8. Suggest three benefits of market research to a business
9. What is the difference between qualitative and quantitative market research?