

How Market Research can Improve Your Profits & Reduce Costs

By Marie-Claire Ross

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In today's highly competitive world, business success depends on the ability to make well-informed, knowledgeable and strategic decisions. Entrepreneurs and business managers need reliable information to develop strategies to market new and existing products and services that will be valued by customers.

Market research is essential to fully understanding your consumers and competitors. To perform successfully, business owners and managers must know their markets, customer attitudes and needs, competitors and their competitive position. Inadequate knowledge about consumers puts a company at a distinct competitive disadvantage.

One of the harsh truths in business is that few people have unfailing intuition or reliable 'gut feelings'. Subjective thinking can be the downfall of many entrepreneurs. Fortunately, you can use market research to verify your 'gut feelings' which leads to more accurate decision-making.

Spending money or time on professional market research is rarely wasted because it can mean the difference between a successful venture or avoidable failure.

In fact, market research can actually save you money and identify opportunities to improve profits.

Listed below are four ways market research can be used to improve your bottom line and eliminate costly mistakes.

1. Determine your Target Market

Did you know that last year, 7115 patents were granted by Intellectual Property (IP) Australia? It is estimated that less than 50 of those patents will be successful. Why the poor success rate? Sadly, while the creators had the talent to invent the items, they lacked the ability to research whether there was a market for their 'baby'.

One of the most prevalent traps in developing a new product or service is assuming it will fill a market need. Strangely enough, customers are finicky creatures and want products that suit them perfectly. Creating a product or service that you think people will want can spell disaster.

Before launching a new product or service, it is essential to know:

1. Who has a real need for the product or service I intend to sell?

2. How many potential consumers are out there?
3. Where are my potential customers?
4. How much are my customers willing to spend on my product or service?
5. Does my product or service save my customer money or make them substantial amounts of money?
6. Why will they buy my product or service?

By identifying your target market, you will be able to evaluate the viability of your new product and service and understand the enhancements needed in order to increase sales.

Target market definitions also feed into the development of your promotional and sales strategy. By understanding your market, you are less likely to waste your advertising dollars on promoting to the wrong demographic. Further, by understanding your market you will know which benefits are conducive to sales, which will facilitate more effective selling strategies.

Once your target market is defined, further market segmentation can be undertaken which is the foundation for marketing and advertising strategies.

Another common business trap is to have previously identified your market and assumed it was set in stone. The chances are your market will keep changing due to emerging industries, new technology or even changes in company decision-makers. Redefining and reviewing your market should be undertaken regularly.

By fully understanding your target audience you will have the ability to develop a relationship with it. This relationship can bring mutual and substantial benefits to both parties. From your knowledge, you will be more capable of foreseeing market trends and identifying market opportunities. This will enable you to provide further products and services to fill market gaps.

Defining your target market can be achieved by undertaking either primary or secondary research (or both).

Primary research (or original sources) involves gathering actual data among those using or likely to use your product or service. Questionnaires, in-depth interviews, focus groups and observation are all used to uncover information. It usually involves commissioning a market research company or consultant to conduct research.

Secondary research (or printed sources) involves data collected and produced by others such as trade associations, publications or the Government (eg: census data). This method is less time consuming and more cost effective. However, the data may not fit your product or service accurately enough, resulting in misleading analysis and bias. In untapped or niche markets, all of the secondary data in the world will be of no benefit to you.

2. Know your Customer Inside-Out

Research has found that it is five times more expensive to win a new customer, than keep an old customer. Typically, repeat and referral business accounts for 60-90% of revenues.

With this in mind, it is imperative that you spend time and energy uncovering what your customer thinks about your product or service (as opposed to what you believe they think).

There are two separate elements that exist in your product or service. The tangible product features (positives, negatives, benefits etc) and the intangibles such as the standard of customer service and after-sales care.

Ensuring that your product and service exceed your customers' expectations for both these elements is imperative for the success of your offering.

Customers can be a tough lot to please. The modern consumer is demanding and makes purchase choice not just on product benefits, but also on the level of service. Providing the best product in the marketplace will not guarantee you success if your service is poor.

If you are not in regular contact with your clients, market research is essential in evaluating your customer perceptions, expectations and satisfaction with both your product and service because these factors are the heartbeat of your business.

In fact, the most crucial time to undertake this research is during an economic downturn when competition for the customers' dollar is high. If you want to stay ahead of the competition, conduct some valuable market research. Your competitor will no doubt be curtailing their market research effort, so the more you know about what your customers (and your competitors' customers) think, the better off you will be.

The most appropriate research to understand your customer is a customer satisfaction study that uncovers attitudes to both your product and service.

3. Know Thy Competition

It sounds obvious, but it is vital to know what your competition is doing or planning to do.

Competitive analysis is the only way to gather competitor intelligence. Yet, few businesses undertake competitive analysis on a regular basis. Competitive data is usually collected during business and marketing plan development or before the launch of a new product or service.

To be competitive, you must focus on what you do better than your competitors (such as better product quality, better price, better distribution). By sharpening your competitive advantage, you can exploit your most marketable advantage.

Competitive analysis should be continually monitored and it does not necessarily need big dollars. The Internet can provide a wealth of information such as the Australia Stock Exchange website (www.asx.com.au) which provides a company research search engine for listed Australian companies. The Dun & Bradstreet website also has company information both fee-based and free (www.dnb.com.au).

If you need more detailed intelligence such as what your customer likes or dislikes about your competitor's products or services, you will need to implement a market research study.

4. Database Management

As a market researcher, the most surprising thing to learn when working with companies, no matter how big or small, is what little emphasis is placed on maintenance of customer databases.

Databases are a goldmine of customer information.

The collection of customer data is vital to understanding your customer profile. By using your customer data more effectively, new products can be developed more efficiently and a more cost-effective direct marketing campaign can be achieved.

A thorough database will even end up saving you money as you will not have to commission a market research agency to unearth the information for you.

If market research is needed, by having up-to-date contact details of your customers, recruiting participants for focus groups or interviews will be far cheaper than having to find your customers by randomly ringing phone numbers from the phone book.

Concluding Thoughts

Many young, and even established businesses, avoid undertaking market research because of the perceived difficulty and expense.

Research does not have to be expensive. There are many ways you can research your market in-house, while leaving the major projects to research companies or consultants.

Market research is a worthwhile venture that, if done properly, brings financial rewards and reduces unnecessary costs. The cost of the research is often surpassed many times over by increased revenue from sales.

So what are you waiting for? Get those databases working, research your competition, define your market and understand your customer. Remember: "What gets measured, gets managed."

But be warned. There is one main downside to consider - accepting harsh market feedback. While this is an unpleasant outcome, by welcoming and addressing criticism, success will be found.

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