

Why is market research needed?

A business needs to find out how many people would want to buy the product it is planning to offer for sale. If there is not a very big market for the product, a great deal of money could be wasted producing something that not many people will buy. It could even cause the business to go bankrupt. Therefore, it is very important that **market research** is carried out accurately.

Market research is used to try to find out the answers to these questions.

- What feature of my product do people like or dislike?
- Would they be willing to buy my product?
- What price would they be prepared to pay?
- Where would they be most likely to buy my product?
- What type of customer would buy my product?
- What type of promotion would be effective with these types of customers?
- What is the competition like?

By carrying out market research, a business can identify customer needs in a changing and competitive international environment. This is essential if a business is to remain competitive in the future.

Types of information

Market research can find out:

- quantitative information, which answers questions about the quantity of something, for example, 'How many sports shoes were sold in the month of December?' or 'What percentage of children drink a certain sort of cola?'
- qualitative information, which answers questions where an opinion or judgement is necessary, for example, 'What do customers like about a particular product?' or 'Why do more women than men buy the company's products?'

Both types of information can be gathered as a result of:

- **primary research**, or field research
- **secondary research**, or desk research.

Primary research

Primary research, or field research, is the collection and collation of original data. It involves direct contact with potential or existing customers.

This research will usually have been planned and carried out by the people who want to use the data; it is first-hand. It can be an expensive way to gather information and will usually be for a specific purpose, for example, to test the market to see if a new product would be likely to succeed.

There are various types of primary research method:

- **questionnaires**
- interviews
- focus groups
- observation.

Note: Questionnaires, interviews and focus groups are all different types of survey.

Definitions to learn

Market research is the process of gathering, analysing and interpreting information about a market.

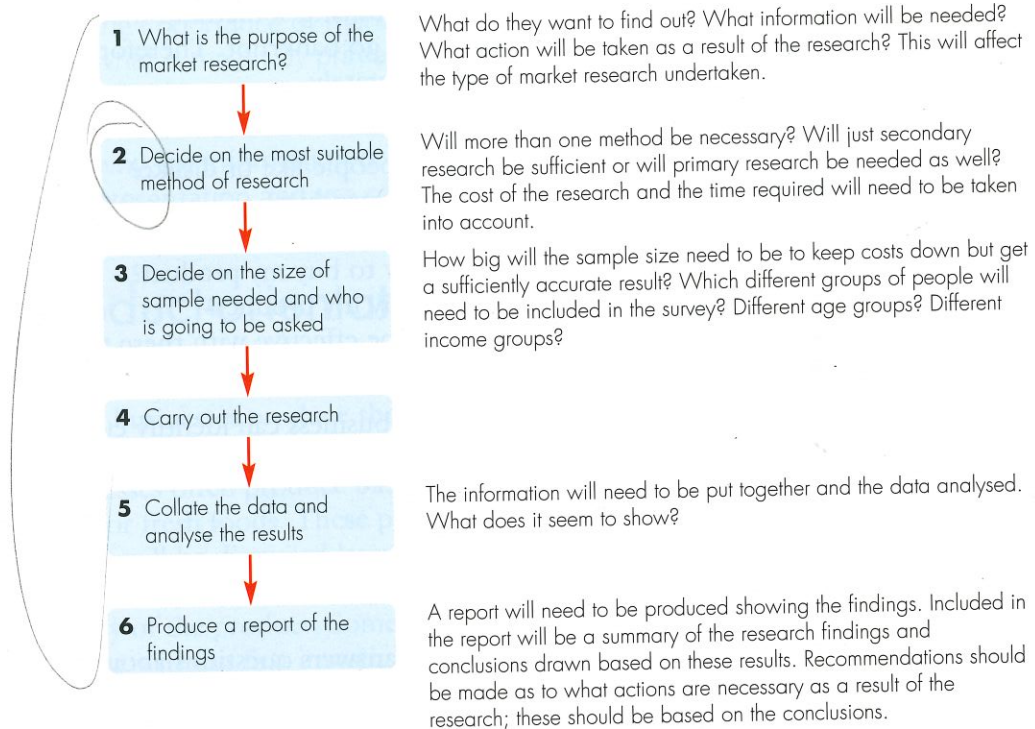
Primary research is the collection and collation of original data via direct contact with potential or existing customers. Also called field research.

Secondary research is information that has already been collected and is available for use by others. Also called desk research.

A **questionnaire** is a set of questions to be answered as a means of collecting data for market research.

The process of primary research

To undertake primary research, a business will normally go through a number of stages, as summarised in the diagram below.

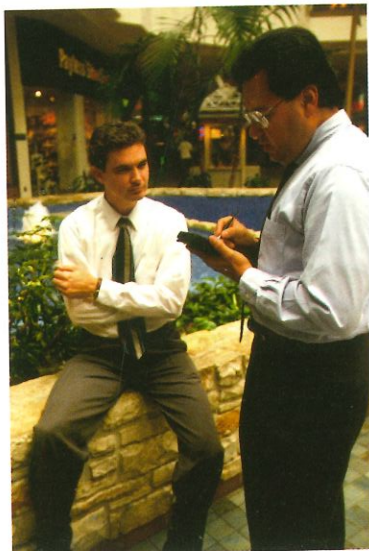


The stages of primary research

Methods of primary research

Questionnaires

Questionnaires form the basis of most primary research. Questionnaires may be conducted face-to-face, for example in the street, by telephone, by post or on the internet.



Online surveys can be carried out on specialised websites. These allow the researcher to put a questionnaire on the website. The researcher will then email people to ask them to go onto the website and complete the questionnaire.

Deciding what questions to ask is difficult if you want to be sure of getting accurate results. Some questions may not be very clear, some questions may lead the respondents to answer in a certain way which may not be what they really think. The researcher also needs to decide who to ask.

Advantages of questionnaires

- Detailed qualitative information can be gathered about the product or service.
- Customers' opinions about the product or service can be obtained.
- They can be carried out online, which makes it cheaper and easier to collate/present the results.
- They can be linked to prize draws and prize draw websites to encourage people to fill in the questionnaire.

Disadvantages of questionnaires

- If questions are not well thought out, the answers to them will not be very accurate. It may be very misleading for the business if it is thought that a product is liked by consumers, when in fact the respondents were only saying they thought the product was quite attractive but they would not actually buy it.
- Carrying out questionnaires can take a lot of time and money.
- Collating and analysing the results is also time-consuming.

Interviews

When interviews are used, the interviewer (the person asking the questions) will have ready-prepared questions for the interviewee (the person answering the questions).

Advantages of interviews

- The interviewer is able to explain any questions that the interviewee does not understand.
- Detailed information about what the interviewees like and dislike about the product can be gathered.

Disadvantages of interviews

- Whether consciously or unconsciously, the interviewer could lead the interviewee into answering in a certain way, resulting in inaccurate results due to interviewer bias.
- Interviews are very time-consuming to carry out and, therefore, they are often an expensive way of gathering information.

Interviews can be carried out with one person or they can be done in groups, where there is a single interviewer putting the questions to a group of people. This is less expensive than asking people individually, but it does run the risk of the answers from people not being what they really think, but being influenced by what the others in the group say.

Samples

When deciding who to ask to fill in a questionnaire or who to interview, a **sample** would have to be selected as it would be too expensive and impractical to try to include all the relevant population. This could be:

- a **random sample**. This means that every member of the population has an even chance of being selected. People are selected at random (often by computer), for example, every 100th name in a telephone directory. The advantage is that everyone has an even chance of being picked, but not everyone in the population may be a consumer of the particular product being investigated.

Definitions to learn

A **sample** is the group of people who are selected to respond to a market research exercise, such as a questionnaire.

A **random sample** is when people are selected at random as a source of information for market research.

Definitions to learn

A **quota sample** is when people are selected on the basis of certain characteristics (such as age, gender or income) as a source of information for market research.

A **focus group** is a group of people who are representative of the target market.

- a **quota sample**. This is when people are selected on the basis of certain characteristics, for example, age, gender or income. Researchers are given a quota. If they are carrying out street interviews, the researchers can choose who to interview, providing they ask a certain number of people with certain characteristics. For example, they may be required to interview 20 people from the age group 10–25, 30 people from the age group 26–45, and 20 people from the age group 46–60. The researchers can then find out the views of these specific groups.

Focus groups

This is where groups of people (**focus groups**) agree to provide information about a specific product or general spending patterns over a period of time. This helps with development and sales. Groups may also test new products and then discuss what they think of them, explaining what they like and what they dislike about them.

Advantage of focus groups

- They can provide detailed information about consumers' opinions.

Disadvantage of focus groups

- They can be time-consuming, expensive and biased if some people in the panel are influenced by the opinions of others.

Observation

This can take the form of:

- recording – for example, meters can be fitted to monitor which television channels are being watched
- watching – includes such activities as counting how many different types of vehicles pass particular billboards or posters, counting how many different types of people go into a particular shop and also come out having bought something
- audits – for example, the counting of stock in shops to see which products have sold well.

Advantage of observation

- It is quite an inexpensive way of gathering data.

Disadvantage of observation

- The information only gives basic figures. It does not provide the business with reasons for consumer decisions.

Whether questionnaires, interviews, focus groups or observation are used to find out about a product depends very much on the type of product or service in question.

Tips for success

Make sure you can select a suitable method of primary research for particular products and explain why it is suitable.

Activity 11.2

The following products require some primary research. Decide which type of research would be the most appropriate to use and why.

- a) The possible success of a new chocolate bar.
- b) Whether to introduce a new style of watch which uses fashionable bright colours.
- c) Whether to extend an existing taxi service to cover a new town.
- d) The feasibility of opening a new restaurant.
- e) Why the sales of a sports shoe are falling.

Secondary research

Secondary research, or desk research, is the use of information that has already been collected and is available for use by others. The information may be from either internal sources or external sources.

Internal sources of information

A lot of information may be readily and cheaply available from the firm's own records. Relevant qualitative information will be available from the Sales department, which will hold detailed data on which brands of products have been selling well and in which area. The Finance department could give detailed information on the costs of manufacturing products or providing services.

Examples of internal sources of information include:

- Sales department sales records, pricing data, customer records, sales reports
- opinions of distribution and public relations personnel
- Finance department
- Customer Service department.

External sources of information

This is when information is obtained from outside the company. External sources are many and varied and tend to depend on the type of product that is being researched. Information from external sources is inevitably of a general nature as it has been gathered for some purpose other than the research that is being undertaken. The data can still be useful, as long as the limitations are taken into account.

- **Government statistics** are a detailed source of general information about such things as the population and its age structure. This is available in most countries.
- **Newspapers** may have useful articles, for example, about the general state of the economy and whether customers are expected to increase or decrease their spending in the near future.
- If there is a **trade association** for the industry, it often provides information for the businesses in that industry. For example, there might be an agricultural association which helps farmers who grow particular crops.
- **Market research agencies** are specialist agencies who carry out research on behalf of companies or anyone who commissions them. They sometimes publish reports of their research into particular markets. However, whilst the reports contain very detailed information about the market, they are expensive to buy.
- The **internet** provides an easily accessible source of a very wide range of information, including information on companies from their own websites, on government statistics, newspapers, etc. In fact any paper-based sources of information can often also be easily and quickly accessed through the internet. However, care must be taken to check information as it is not always accurate.

Tips for success

Make sure you can select a suitable method of secondary research for particular products and explain why it is suitable.

Secondary research is often a much cheaper way of gathering information as the research has already been done by others. It may be needed to help assess the total size of a market by finding out the size of the population and its age structure. Newspapers may carry vital economic forecasts if you are trying to assess when a recession might end and your sales increase again. This type of information could not be obtained by primary research.



Libraries usually contain many sources of secondary information

Activity 11.3

Which of the following sources of information gathered by a business are primary data and which are secondary?

Data	Primary or secondary?
The <i>Daily News</i> article on a competitor's new product	
Sales department's monthly sales figures	
A shop's daily inventory figures showing on which days sales are at their highest	
A traffic count to see how many vehicles pass your billboard advertisement in a week	
Postal questionnaire results researching into your new product	
A market research agency's report on what customers like and dislike about your product	
Annual government population statistics	
Data on customer complaints	

Case study example

Pepsi manufacture fizzy drinks. They want to start selling a new drink in your country. To help them assess the size of the market, you have been asked to find out the following information:

- size of total population
- how many people there are in the age groups 1–10, 11–20 and 21–30 in your country
- how many different fizzy drinks are sold in your country (how many competitors there are)
- where these competitors come from – are they local companies or are the drinks imported?

Activity 11.4

Read the case study above.

What other research would you advise the company to undertake before starting to sell in your country? Explain your answer.

Who carries out market research?

Businesses can carry out their own research into different aspects of the market for their existing product or the possible market for a new product. Secondary research is often easier and cheaper to carry out, as primary research may be too expensive for the business to undertake itself.

The business may decide that it can afford to pay a specialist market research agency who will carry out whatever research it is asked to do. (These agencies also carry out opinion polls to see who they predict will win political elections.) They will find out consumers' spending habits as well as what they think about an individual business's products and their competitors' products. However, they are expensive to use.

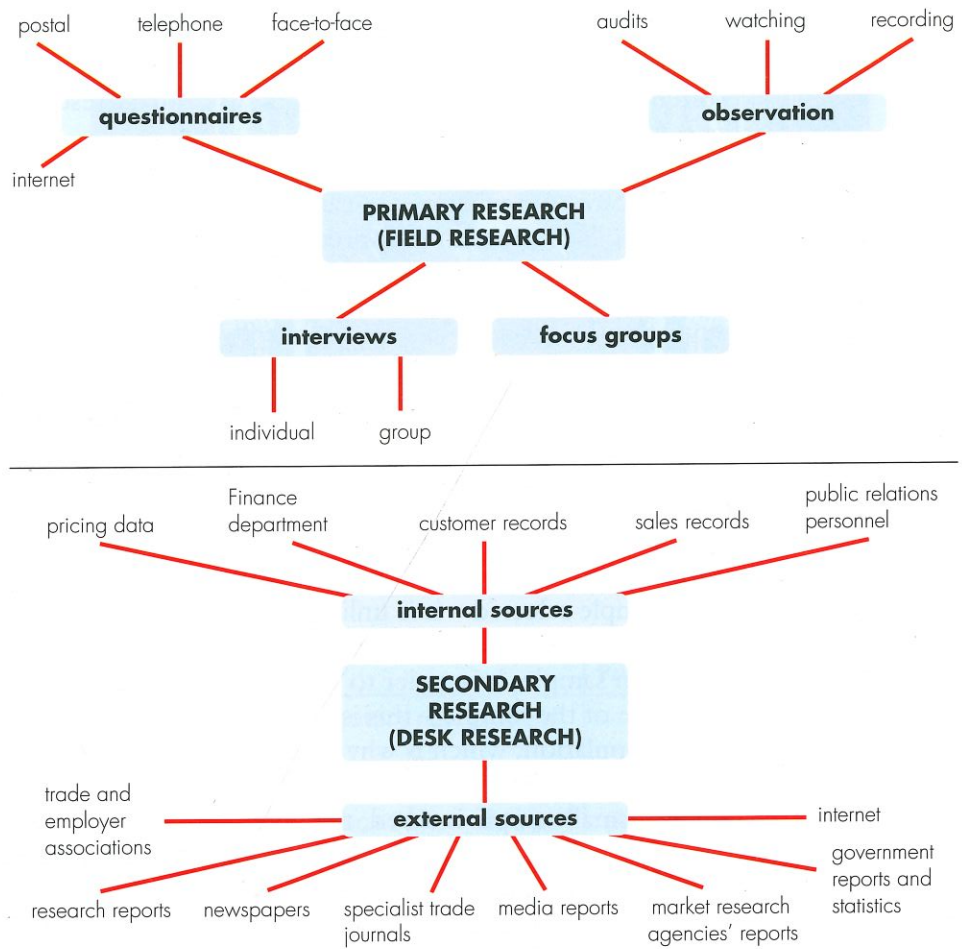
Accuracy of market research data

The reliability or accuracy of the data that has been collected depends largely on:

- how carefully the sample was drawn up
- the way in which the questions in the questionnaire were phrased to ensure honest responses
- the sample selected – it is unlikely to be truly representative of the total population, but it needs to be as near as is possible. If a quota sample is used, rather than a random sample, it is easier to get more accurate data
- the size of the sample – this is also important. It is not possible to ask everyone in a population, which is why a sample is used. The larger the sample, the more accurate the results are likely to be, but the more expensive will be the research. If only a small sample is asked, the results are unlikely to be as accurate. Therefore, the researchers need to decide how many people will give them the accuracy they want and can afford
- well-phrased questions – trying out questionnaires on a small group of people before using them on a large sample can help to see if any of the questions could be misinterpreted. The questions can then be rephrased and the revised questionnaire carried out on the main sample
- who carried out the research – secondary research may not be as accurate as first thought because it was initially carried out for some other purpose and you would not know how the information was actually gathered
- bias – articles in newspapers sometimes have a bias and important information is left out deliberately
- age of the information – statistics can quickly become out of date, no longer relating to current trends in consumers' buying habits, but reflecting what they used to be spending their money on.

These are just some of the reasons why information collected from all sources, both primary and secondary, should be used with care. It should never be assumed straightaway that information is correct.

Revision summary: methods of market research



Activity 11.5

Copy out the table below and fill in the boxes.

Advantages and disadvantages of different types of market research

Method	Examples	Advantages	Disadvantages	Examples of appropriate use	Why the information may not be accurate
Primary research	Questionnaires				
	Interviews				
	Observation				
	Focus groups				
Secondary research	Internal sources				
	External sources				

How to design and use a questionnaire

Tips for success

Make sure you can explain how to carry out a questionnaire and explain why each of the stages is important in gaining accurate information.

Ask yourself the following questions.

- What do I want to find out?
- Who do I need to ask? (Age group, male/female, particular income or occupations)
- Where will I carry out my questionnaire?

Writing the questions

- When deciding what questions to ask, it is advisable to ask no more than 12 questions.
- Keep the questions short and clear. It is a good idea to keep the answers simple too, for example, ask for yes/no answers or provide a choice from which the respondents have to choose.
- If you want to know the age of the interviewee, give a choice of age groups, for example 21–40.
- Avoid open-ended questions unless people's opinions are sought.
- Be careful not to lead the interviewee into an answer that may not be true by asking too direct a question.
- Think about the order in which you ask the questions. Be logical!

Carrying out the questionnaire

Before going out and asking the questions, think about how you will ask the questions and how you are going to record the results. You may need to create a grid to put the respondents' replies on.

- How many people are you going to ask?
- At what time of the day are you going to carry out the questionnaire? Will this affect who will answer the questions?
- Where are you going to carry out the questionnaire? Will this have an influence on who you ask?

Case study example

On the next page are some of the results of a questionnaire that was carried out to look into the feasibility of opening a fast food restaurant in a city centre. One hundred people were asked at random to answer the questionnaire. The aim of the questionnaire was to identify the particular market segment to be targeted in any promotional campaign.

(continued)

Case study example (continued)

(i)	Responses to question 1:	Age group (years):	No. of persons:
	Age structure of persons in the sample	0–9	5
		10–19	40
		20–29	20
		30–39	20
		40–49	10
		50+	5
(ii)	Responses to question 2:	Response:	No. of persons:
	'How often do you eat out?'	Never	5
		Occasionally	20
		Once per month	30
		Once per week	20
		More than once per week	25
(iii)	Responses to question 3:	Response:	No. of persons:
	'Where do you purchase meals most often?'	Hotel	20
		Café	15
		Fast food restaurant	35
		Food stalls (in street)	25
(iv)	Responses to question 4:	Response:	No. of persons:
	'How far do you usually travel when eating out?'	1 km	30
		2 km	40
		5 km	12
		5–10 km	8
		over 10 km	5

Activity 11.6

Analyse the results in the case study above and answer these questions.

- Which age group would be most likely to eat in fast food restaurants?
- How will this information affect where the business will advertise their restaurant?
- Why did the questionnaire contain the question 'How often do you eat out?'?
- How will the responses to questions 2 and 3 be useful to the fast food restaurant?
- Suggest two additional questions that could have been included in the questionnaire. Explain why the information they provide would be useful to the business.
- Explain why the questionnaire results might not be very accurate.

Presentation of data from market research

When information has been gathered as part of market research, it may be difficult to make sense of what it means. The raw data will need to be converted into a form which is easy to understand. The significant points need to be made clear. For example, after conducting a questionnaire, it may not be clear which answer has the greatest number of 'yes' responses.

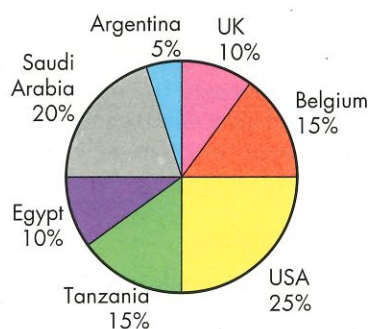
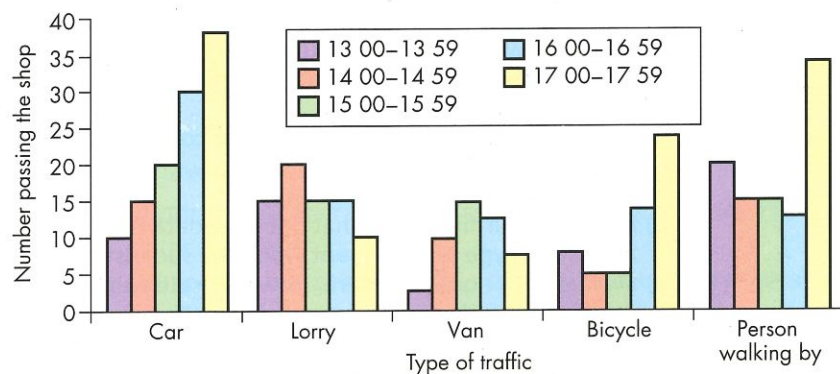
The type of data that has been collected and what it is to be used for will affect the form of presentation which will be used. Information can be displayed in the form of:

- a table or tally chart – usually used to record the data in its original form, however, it is often better to convert the data into a chart or graph

An example of a tally chart

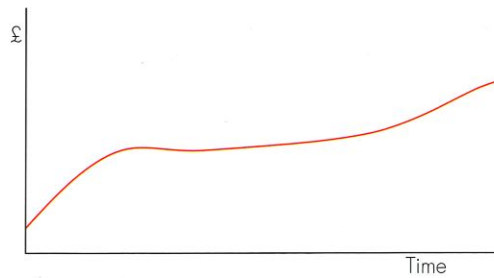
Time	Car	Lorry	Van	Bicycle	Person walking by
13 00–13 59					
14 00–14 59					
15 00–15 59					
16 00–16 59					
17 00–17 59					

- a chart – shows the total figures for each piece of data or the proportion of each piece of data in terms of the total number. For example, if a company sells its product in several countries, a chart can show at a glance which countries have the biggest percentage of sales and which have the lowest



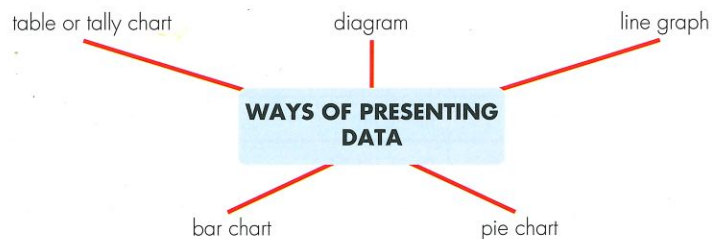
A bar chart and a pie chart

- a graph – used to show the relationship between two sets of data. For example, how total cost changed over a number of years. The two variables are ‘total cost’ and ‘time’.



A line graph

Revision summary: presentation of data from market research



Activity 11.7

You have been asked to carry out some research into the feasibility of opening a new restaurant in your local area. Design your own questionnaire to carry out on friends and/or family. Complete the following steps.

- Design the questionnaire.
- Decide who you are going to ask.
- Decide how many people you are going to ask (it is a good idea to carry out the questionnaire with friends and then put the results together so that you have a greater number of replies).
- Produce a summary sheet on which to collate the results.
- Collate the results.
- Present the results you have found.
- Evaluate your findings. What does the data tell you? Should a new restaurant be opened? If so, what type of restaurant would be successful?
- Evaluate your questionnaire. How accurate were your results? Would you redesign the questionnaire if you were carrying out the research again?

International business in focus: mobile phone technology

Mobile phone companies are hoping to increase profits with the introduction of an ‘app’ which will allow the use of your phone as a wallet. This will allow payments in such places as shops and restaurants, to be made using your mobile phone. Some of the options allow for multiple credit card numbers to be stored in a single phone. However, consumers, retailers, banks and credit card companies have expressed some concerns over the new technology, especially over security.

Discussion points

- How could the mobile phone companies find out what consumers, retailers, banks and credit card companies think about the new technology?
- Do you think it is necessary, before launching this app, for this market research to be done?

Exam-style questions – Paper 1

- 1 T & T is a small business which sells many different types of garden tools. Sales of its products are growing very quickly. Its Managing Director (MD) feels that market research isn't the most important factor contributing to the success of the business. However, the MD does want primary market research to be carried out before developing a new type of garden tool.
- a) What is meant by 'primary research'? [2]
 - b) Identify **two** methods of primary market research. [2]
 - c) Identify and explain **two** ways of presenting market research data on existing products that T & T could use. [4]
 - d) Identify and explain **two** factors which should be taken into account by T&T when trying to ensure the research information is accurate. [6]
 - e) Do you think market research is necessary before T & T develop a new product? Justify your answer. [6]
- 2 H & H have recently designed a new 'app' for the iPhone. People in many different countries will be likely to want to download this app. The MD wants the Marketing department to carry out secondary research rather than primary research before launching this new 'app'.
- a) What is meant by 'secondary market research'? [2]
 - b) Identify **two** examples of secondary market research data which could be used by H&H. [2]
 - c) Identify and explain **two** advantages to H&H of using secondary market research. [4]
 - d) Identify and explain **two** reasons why accurate market research information is important to H&H. [6]
 - e) Do you think the MD is right to want to only carry out secondary research? Justify your answer. [6]

Revision checklist

In this chapter you have learned:

- to identify when primary or secondary research would be suitable to gather data for a particular purpose
- how to conduct your own market research – primary or secondary (be able to construct a questionnaire, carry out the questionnaire and analyse the data gathered)
- to evaluate whether data is accurate or biased
- how to present market research results.

NOW – test your understanding with the revision questions on the CD-ROM.