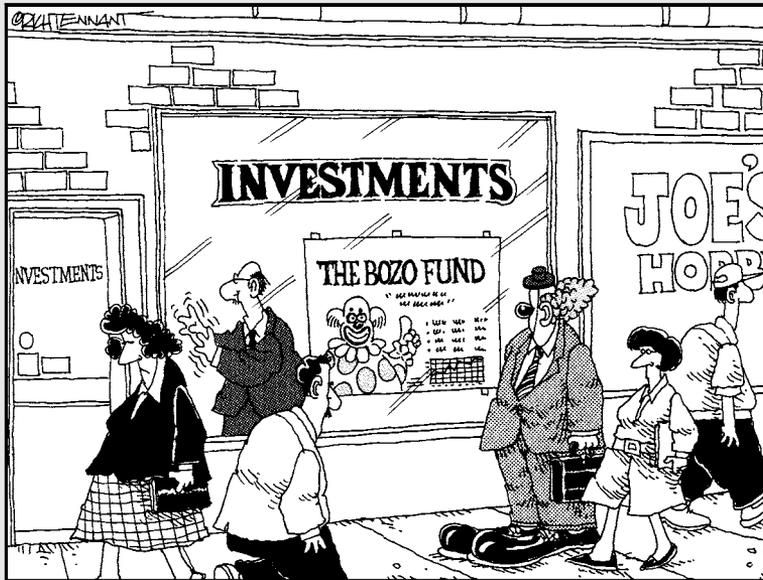


# Part IV

# Crafting Your Marketing Strategy

The 5<sup>th</sup> Wave

By Rich Tennant



"All right, ready everyone! We've got some clown out here who looks interested."

## *In this part . . .*

**I**n this part, you get to put your knowledge into action. You find out how to use the information you've gained regarding internal and external influences in order to create a successful marketing strategy. I focus on the core pieces of marketing strategy, including conducting research, identifying your key segments, and finding new market opportunities. You discover why research is the key to getting a handle on why and how your customers make purchase decisions.

## Chapter 12

# Conducting Market Research

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### *In This Chapter*

- ▶ Understanding why market research is vital
  - ▶ Exploring and planning the different steps of the research process
- 

**C**onsumers all have different tastes and ideas as to what's important in their lives. And they have different abilities to pay a particular price for what they want. So the days of relying on your gut instincts and intuition are over. In order to minimize risk and improve your chances of succeeding, you need sound and objective data. Market research provides you with that necessary data.

Market research is the key to getting a handle on how consumers behave. It's often needed to ensure that you produce what consumers really want, not what you think they want. In this chapter, I discuss not only the importance of market research and the knowledge you gain from using it, but I also explain how to conduct market research. I show you the different methods of market research and the benefits and difficulties surrounding each method.

## *Recognizing the Vital Role of Market Research*

In this day and age, most businesses can't afford to take chances on ideas without getting more information about what consumers want and what they're willing to pay to get it. Market research can provide you with that information. *Market research* is the systematic collection, recording, analyzing, and distributing of marketing data.



Market research consists of a plan that charts how data is to be collected and analyzed so the results are useful and relevant for making marketing decisions. The research helps you create marketing campaigns that are sturdy and effective. When you use research to develop your marketing campaigns, they'll be more effective because they'll be viewed more favorably by consumers (because you've done your homework first). Market research serves as the foundation of all areas of marketing, so all decisions should be supported by some level of research.

## *Examining the purpose of market research*

Regardless of the industry that you're in, market research provides the information that you need to make sound business decisions. Market research plays the following three functional roles for every business:

- ✓ **Provides a picture of what's occurring:** This is the *descriptive function*. It involves gathering and presenting statements of fact. In particular, good market research will inform you of
  - The preferences of your consumer
  - Information regarding your competition and what it's doing
- ✓ **Enables you to figure out the reasons behind what's occurring:** This is the *diagnostic function*. It involves taking the descriptive information and explaining the data so that it makes sense and is clear.
- ✓ **Helps you identify what's likely to occur in the future:** This is the *predictive function*. It involves the implementation of what your research has shown you. Market research encompasses all methods of gathering information to determine which markets have the best potential.



When research is done well, it offers you alternative choices. For example, good research might suggest multiple options for introducing new products or entering new markets. You use the information gained to determine which products and services to offer and which products would be profitable to introduce into your market. Good research also does the following:

- ✓ Determines whether you've been able to satisfy customer needs and whether any changes need to be made to packaging, delivery, or the product itself
- ✓ Allows you to formulate a valuable and effective marketing plan and measure the success of that plan

## *Understanding how market research affects your marketing success*

As I explain in the preceding section, market research is your key to marketing success. Specifically, market research

- ✔ **Reduces your chances of making costly mistakes in marketing, strategic planning, and even product design:** When you conduct market research, you gain a deeper grasp of what your target market is looking for. Then you can create a marketing message that pertains and appeals to that market.
- ✔ **Makes maintaining your customer base easier:** Gaining and maintaining consumers takes a lot of money, so understanding what makes some loyal and others not can contribute to the success of your business. When you ask questions, you increase your knowledge of your current customers. You gather that information to help in the development of loyalty programs that will actually work with your current customer base.
- ✔ **Uncovers gaps in services or product capabilities, which leads to new business ideas:** Market research allows you to ask consumers what they're looking for, enabling you to discover current gaps that consumers feel — even if you don't see them. Discovering these gaps puts you ahead of the competition because you're better able to serve the needs of consumers.
- ✔ **Helps you anticipate changes in the marketplace:** You can anticipate changes in the marketplace by conducting market research that gauges trends in the general population of your customer base. Gauging trends allows you to prepare for change and make any modifications necessary to keep your product viable in the marketplace.
- ✔ **Helps you assess whether your business is delivering on its promises:** You can use market research to effectively measure the satisfaction of your customers and determine whether they're happy with the products and services you're providing them.
- ✔ **Determines whether your advertising is effective:** You can use research to determine whether your advertising messages are attracting your target market to purchase your products. If not, the research will provide you with the information that you need in order to change the message and make it more effective.

## Using market research to your marketing advantage



Market research is the core of a great marketing strategy. You wouldn't take off on a cross-country trip without a road map, so why would you spend hundreds or even thousands of dollars on marketing without the tool that guides you in creating a successful marketing strategy? Market research brings to light the unknowns about the consumers you're trying to market to. You can use your marketing research to do the following:

- ✔ **Identify newly emerging trends in economic, social, and competitive environments and alter your marketing mix to fit them.** Market research enables you to gauge the needs of the consumers you're marketing to, which in turn allows you to target your message with the correct marketing vehicle. Sometimes consumers aren't vocal in their needs, but market research will help open them up.
- ✔ **Develop a long-run marketing strategy.** Research helps you create longer campaigns in order to get your message in front of your consumers multiple times. It has been proven that a consumer must see your message seven to eight times before deciding to make the purchase.
- ✔ **Identify external threats and opportunities.** Market research can inform you of competitors or other products that may prove to be a threat to the sale or acceptance of your own products.
- ✔ **Compare the potential of diverse markets.** You can use market research to evaluate opportunities that you may have in other markets.
- ✔ **Select target markets.** Market research provides you with the information to help select the group you will target.
- ✔ **Establish realistic missions and goals.** You can use market research to set financial and forecasting goals for your product.
- ✔ **Formulate and implement goal-oriented strategic plans.** Market research gives you the information you need to create a road map that helps formulate a marketing strategy that's successful in meeting the goals that you set.
- ✔ **Control market performance.** Market research helps you create marketing plans that provide you with predictions of how they should perform.
- ✔ **Identify and define marketing opportunities and problems.** You can use the knowledge that you gain from market research to help define where you should market and also to identify problems you may encounter when marketing there.
- ✔ **Generate, refine, evaluate, and monitor your marketing efforts.** Research helps you create a marketing plan that takes everything into account, allowing you to make the best of all your marketing efforts.

- ✔ **Improve your understanding of the marketing process as it pertains to your consumers.** You can use market research to understand the ways that your consumers think and the reasons they purchase specific products. Then you use this information in your marketing strategy.
- ✔ **Find where your products are most likely to sell.** Market research can show you the behavior of consumers, including where they make purchases.
- ✔ **Identify market segments and niches.** It's important to identify segments that you can market to in order to create pertinent messages that appeal and entice consumers; market research can help.
- ✔ **Determine who your competitors are.** With market research, you can ask consumers about competitors of your products. Doing so helps identify competitors and gain information on why consumers purchase from them.
- ✔ **Discover how to overcome barriers to market entry.** Market research allows you to gauge product apprehension from consumers. This enables you to create a plan to overcome those barriers that may hurt the sale of your product.
- ✔ **Establish fair market pricing for your products.** You can use market research to help gauge the market value of your product to consumers. Doing so ensures that you don't overprice or underprice your product.



Market research doesn't have to be elaborate to be effective. It can actually be quite simple and still provide you with usable and valuable information. Later in this chapter, I discuss the different methods of research and how to determine which ones fit your needs.

## Getting an Overview of the Research Process

Market research can sometimes seem daunting to marketers, but the key is to work through the steps of the process. Following the steps enables you to be clear about the information you're looking for. Here's how to make your way through the research process:

### 1. Define the problem.

You never want to conduct research on things that you would *like* to know. Instead, make sure you're conducting research for the things you *need* to know. Use the earlier section "Understanding how market research affects your marketing success" to identify what it is that you want to gain from your market research. Identify the problem and make that the core focus of your research.

## 2. Determine the research design.

In this step, you identify what data you will collect and analyze to solve the problem. First you determine the information that you're seeking (whatever kind best supports your objective). Then you choose your data collection approach. You have two main options when collecting data:

- Acquire third-party research, which comes from companies that specialize in market research. They sell this research data for a price.
- Conduct new research (either conduct it yourself or outsource the research to a market research firm).

## 3. Gather third-party data if you're using it.

Third-party data may not be specific to the group you're targeting, but you still can glean information from it that's helpful in guiding you in your marketing strategy. The best part is that this type of research comes at a lower cost than primary research. Later in this chapter, I show you where to find the data and how to evaluate whether it meets your needs.

## 4. Create a plan for original research if you're doing it.

This step is the most intensive. In it, you do the following:

- **Determine your methods of collecting data.** Will you interview various individuals? Will you observe behaviors without direct interaction with the individuals?
- **Design data collection forms and questionnaires.** You want your forms and questionnaires to ask for the information that will provide you with the data that will help solve the problem you identified in the first step of the process. A questionnaire only has validity when the questions asked measure what was intended to be measured. Your data collection forms and questionnaires also must be properly written, formatted, and administered in order for them to be valid and reliable.

## 5. Determine sample plan and size.

A *sample plan* identifies how you'll conduct your market research, what questionnaires or forms you'll use, and what you'll do with the analysis. A *sample size* is the number of people you need to interview in order to get the results that reflect the target population as precisely as needed for an accurate sampling.

## 6. Collect the data.

All you're doing in this step is implementing the plan, which you don't need me to tell you how to do — hence the lack of coverage on this topic.

### 7. Present, interpret, and report the data.

After you've collected all your data, it's time to make sense of it. Before you can gain a clear understanding, you must examine the raw data to make sure that the information you need in order to conduct an accurate analysis exists as required.

After you have put the data in a form that's useful, you can begin the process of analyzing the data to determine what you've discovered. The method you use to analyze the data will depend on the approach you used to collect the data.

Finally you report your findings. The effort you put into your report will depend on whether you need a formal or informal report.



The remaining sections in this chapter detail what you need to know about each of the preceding steps.

## *Clarifying the Problem at Hand*

The problem you've chosen to focus your research on must be translated into a market research problem. In other words, you must set up the question in a way that can be observed and measured. You do this by formulating the problem into questions and analyzing what the resulting information means. Then you can use this information to determine the method you'll use to collect the data. Doing so allows you to translate the decision problem into a research problem. For example, a decision problem may be whether or not to launch a new line of products. The corresponding research problem might be to assess whether the market would need and accept the product line.



To ensure that the true decision problem is addressed, outline possible scenarios of the research results, and then formulate plans of action under each scenario. The use of such scenarios ensures that the purpose of the research is agreed upon before it begins.

## *Settling on the Research Design*

Determining how you'll design the research you're about to collect is really about selecting the method that works best for you. In order for the research to be accurate and efficient and provide you with the information you need, your design must reflect the problem you want to define and solve. It must also provide the details on how you'll obtain and gather the information that's needed.

## Classifying the focus of the research

By taking the time to classify what type of research you're looking for, you're better equipped to make a determination on whether to conduct the research yourself or use a research company that has already collected the data. Classifying helps in selecting not only how to do the research, but also in selecting what method will be most effective.

Market research can be classified in one of the following categories:

✓ **Exploratory research:** This is the classification of research that's used when a problem hasn't been clearly identified. It helps determine the best research design, data collection method, and selection of respondents. Exploratory research classification often relies on *secondary research* (research from an outside source, including research reports that are already finished, newspapers, magazines, journal content, and government and nongovernment organization statistics.)

Exploratory research allows you to gain a greater understanding of something that you don't know enough about. The design of exploratory research is much more flexible and dynamic than the other classes of research, because the research you're doing is more general and not necessarily focused on specific statistics.

✓ **Descriptive research:** This class of research is also known as *statistical research*. It's used to describe the data and characteristics of the population that you're studying. It's often done in order to identify a problem or to study frequencies, averages, and other statistical calculations. You often use descriptive research to test a hypothesis and answer questions concerning the current status of the respondents involved in the research. It won't gather the causes behind your situation, however.

In order to obtain the most useful and accurate results possible, descriptive research must comply with strict research requirements. In other words, you need to figure out who you're gathering your data from and where those subjects are located. In order for the results to be accurate, you must use the same sampling. For example, if you're trying to test pricing of your product, your sampling needs to be aligned with who you would be selling your product to. After all, what a consumer may pay for your product on the West Coast isn't necessarily what she'd pay on the East Coast. So, because the variables are too different to provide you with accurate results, you don't want to do market research using the East Coast price if you're selling on the West Coast.

You can use two basic types of descriptive research:

- **Longitudinal studies:** These studies make repeated measurements of the same subjects. They allow you to measure and monitor behaviors such as brand switching. Longitudinal studies are

somewhat difficult to conduct, because they require your subjects to make a time commitment. This commitment is often a deterrent to participation.

- **Cross-sectional studies:** These studies focus on a sampling of the population to make measurements at specific points in time. A special type of cross-sectional study is called *cohort analysis*; this analysis tracks a collection of individuals who experience the same event within the same time frame. This analysis is useful for long-term forecasting of product demand.

✓ **Causal research:** This classification explores the effect of one thing on another — more specifically the effect of one variable on another. You can use this class of research to measure the impact a specific change will have on existing norms. It allows you to predict hypothetical scenarios, and it's designed to identify a cause-and-effect relationship.

These classifications are made according to the objective of the research. For example, it's possible that in some cases the research will fall into one of these categories, but in other cases different phases of the same project may fall into different categories.

## *Deciding what type of info best supports your focus*



Before you collect data, you need to decide what kind of data you need. Doing so will assist in accomplishing the goal you have set to achieve with your market research. Information types for market research are divided into quantitative and qualitative methods. I break down these methods for you here:

✓ *Quantitative methods* use mathematical analysis, which identifies differences that are statistically significant. The sample size used is quite large. This method relies less on interviews, observations, questionnaires, focus groups, subjective reports, and case studies, and focuses more on the collection and analysis of numeric data and statistics. Because it relies on precise measurement and analysis of identified and target concepts, it's the more objective method.

This data is more efficient and allows you to test hypotheses, but you unfortunately may miss contextual detail with this method. Because this research is presented in the form of numbers and statistics, it's less descriptive. The researcher in this role can remain detached, impartial, and objective.

✓ *Qualitative methods* are used to provide a base for quantitative research and help in quantitative research design development, because this type of research provides more descriptive information that can help you

in determining the statistical data that you need. These methods help define problems, generate hypotheses, and identify determinants. They consist of one-on-one interviews to probe for personal opinion, beliefs, and values, and they serve to uncover hidden issues. The sample size used for this method is small. Qualitative methods rely less on numeric data and statistics and more on interviews, observations, focus groups, subjective reports, and case studies. This method is more subjective because it depends on the interpretation of the data.

If you use this method, your data will be richer, more time consuming, and less able to be generalized. Data is in the form of words, pictures, or objects. The researcher in this role is personally involved and may have some partiality. He may also portray an empathetic understanding to the subject.

## *Determining the nature of your research methods*

The nature of research — that is, whether it's brand new and tailored to your audience or current but not specific for your business — falls into two categories: *primary research* and *secondary research*. Your research could involve one or it could involve both; it simply depends on the needs of your business. Here's the lowdown on both types:

✔ **Primary research** involves collecting original data about the preferences, buying habits, and opinions and attitudes of current or prospective customers. Primary research can be costly, ranging anywhere from \$3,000 to millions of dollars. This data can be gathered by using focus groups, surveys, and field tests.

Primary research can be done by your business, but it's also common for companies to hire a firm to assist with the research. If you want to conduct the research on your own, try using online survey tools; these services usually charge you a setup fee plus a one-time fee, but they're well worth the money.

✔ **Secondary research** is data that a company collects indirectly from various sources, such as reference books, magazines, newspapers, industry publications, chambers of commerce, government agencies, and trade associations. Secondary research provides information regarding industry sales and trends as well as growth rates. It also can provide you with demographic profiles and regional business statistics.

The unfortunate thing about secondary information is that it isn't uncommon for researchers to find that the information presented as a teaser is in fact the only information the research contains. You'll often come across this situation when a sample report is presented at no cost but the full report must be purchased. And usually the full report is extremely expensive to obtain.



Primary research isn't conducted as often as secondary research, but it still represents a significant part of overall marketing research. Secondary research provides you with a good starting place, and it's obtained at a fraction of the cost of primary research. It lays the groundwork and primary research fills in the gaps. In fact, some businesses first conduct secondary research, and then they fine-tune their findings with primary research methods. The use of both types of market research can give you a well-rounded view of the market. This balanced view provides even more detailed information that enables you to make important business decisions.

You also can use secondary research data to clarify questions you have before actually conducting the primary research. For example, if you aren't sure who your competitors are, you can use secondary data to gain that information. If you're using secondary research in order to gain more information on conducting your primary research, you may find that your question has already been answered. It's likely that you can find the exact information you were looking for, eliminating your need for primary research. It's also possible that secondary research can show you that conducting primary research may be difficult. How? Secondary research often shows you how data was collected, so this information could include discussions of the difficulties that were encountered when conducting the research.

Both types of research have their pros and cons. By being familiar with both of them, you can make an educated decision on which type of research works best for you and your situation. Table 12-1 outlines the advantages and disadvantages of both primary and secondary market research. Because secondary research is often the first method used, I cover it in the next section, before delving into the details of conducting primary research.

**Table 12-1 Comparing Primary and Secondary Research**

<i>Factor</i>	<i>Primary Research</i>	<i>Secondary Research</i>
<b>Cost</b>	Very expensive; the expense of planning and carrying out the research can be high	Less expensive because the research has already been done; also less time consuming for the researcher; you can recoup costs by selling the research to multiple users
<b>Quality of data</b>	Provides detailed and specific information; usually based on statistical methodologies that involve sampling as little as 1 percent of your target market	Varied quality; could provide out-of-date information, which offers little value, especially if your business is competing in a fast market
<b>Time required</b>	Lots of time; requires the development and execution of a research plan from start to finish	Already available, so minimal time is required; easily obtainable because of how widely distributed it is

(continued)

<b>Factor</b>	<b>Primary Research</b>	<b>Secondary Research</b>
<b>Applicability of data</b>	Tailored to your company's particular needs, allowing you to gain specific information about your target market	Not specific to your company; may provide information that doesn't pertain to you or that you don't need (for example, a report may show the age group as 14- to 18-year-olds, but you need information for all ages under 16)
<b>Practicality</b>	Varied practicality; the project or information may not be feasible or available; a project may be too large to be carried out (for example, hiring a large number of researchers will create an unrealistic expense)	Very practical; information is easy to access due to its widespread availability over the Internet
<b>Control over process</b>	Great control over how the information is collected; allows you to focus on issues such as size of project, number of responses expected, research location, and time frame for project completion	Much less control; research conducted is often controlled by the researcher; requires you to ensure that the data is valid and reliable by critically evaluating how it was obtained, analyzed, and presented
<b>Privacy of data</b>	Very private; data and research findings are yours, allowing you to keep the information hidden from your competitors; gives you an information advantage	Not private; access is granted to everyone, including your competitors; rarely gives you an information advantage

## *Obtaining Existing Data*

Using existing data is often quicker and less expensive, which is why many businesses opt to go this route. You want to get the best data available, so it's important to be equipped with the knowledge you need to do so. You need to know where to find the information and how to evaluate whether the data is useful to you and your business needs. In this section, I cover both of these tasks. By the time you finish this section, you'll know how to get the most use out of secondary data.

## Knowing where to find secondary data

You can obtain secondary research from either internal or external sources. The majority of businesses and organizations collect information from their day-to-day operations. This information is considered your *internal sources* of secondary market research. This type of research includes sales data, financial data, transport data, and storage data.

You also can gain secondary research from *external sources*, such as the Internet, government statistics, trade associations and publications, commercial market research companies, and national as well as international institutions.

Here are some common sources you can use:

✔ **The Internet:** Many Web sites share product descriptions, summaries of services offered, locations, revenue information, and company specifications. Similarly, digital dossiers provide you with company profiles on public corporations, income statements, and balance sheets. You can use this information to research how your competitors are doing business and how successful their businesses are. You can even find out what products are selling best.

✔ **U.S. and state government sources:** You can gain statistical data and information from government sources. This type of data will help you gauge product sales and determine how your competitors are doing in the marketplace. This data often includes the following:

- Economic news
- Export information
- Industry trends
- Legislative trends
- Market trends
- Population demographics
- Product specifications

Data collected by U.S. government agencies also can be accessed for free (or for a minimal cost), using the Internet. You can use this information to conduct your own research, which helps you make determinations about the previous data.

✔ **Specialized research companies:** These companies sell information that contains

- Business data
- Census information
- Consumer classification reports



- Consumer purchase information
- Demographic data
- Five-year forecasts

Syndication services often make this information available in both print and electronic formats.

- ✓ **Business publications and trade organizations:** Nationwide and state-wide trade associations often publish secondary research data in articles, reports, and books. You can use these publications and organizations to gather existing data.

## *Evaluating the usefulness and accuracy of the data you find*

The problem with secondary data is that you don't control the research, so it may not have the information that you're looking for. Or it could contain errors or be unreliable. So, when you use secondary data, it's important to evaluate the information for accuracy and the sources for reliability.

When evaluating secondary data, consider the following questions:

- ✓ Is the data useful in your research study?
- ✓ How current is the data and does it apply to the time period you're interested in?
- ✓ Is the data dependable and verified?
- ✓ Is there any bias in the data that can alter the quality of use for your research?
- ✓ What were the specifications and the methods used in collecting the data? What was the response rate? What was the quality of the analysis of the data? What was the sample size and sampling technique? How was the questionnaire designed?
- ✓ What was the object of the original data collection?
- ✓ What's the nature of the data? What was the definition of the variables? What units were used to measure the data? What categories were used? What relationships between the subjects and variables were measured?



If, after reviewing the information, you find that the secondary research won't provide you with the answers you need, it may be time to evaluate whether primary research is necessary to complete your research. See the following section for details.

## Creating a Data Collection Plan for Original Research

When acquiring original data, you can either do the research yourself or hire someone to do it for you. If you decide on the latter, you have several different types of firms you can use to outsource your primary research, and the level of services they offer can and do vary. These firms include:

- ✓ **Full-service marketing research firms:** These firms develop and carry out the full research plan for their clients.
- ✓ **Partial-service market research firms:** This type of firm offers expertise that addresses a specific part of the research plan, such as developing methods to collect data and design surveys. If you're willing to pay, they'll even go as far as to locate research participants and undertake the data analysis.
- ✓ **Research tool supplier:** This firm provides the tools used by researchers, including data collection tools such as surveys, data analysis software, and report presentation products.

If you go it alone, be prepared for some hard work — but remember that you're saving big bucks this way. The following sections outline what to do and provide guidance to help you along the way.



Even if you decide to hire the work out, you still want to be aware of the process in order to ensure that you're getting the information that you need from the research. While the company you hire knows market research, only you know your business in the way that you do.

### *Picking your collection methods*

Primary research can be collected using two different methods: survey and observation. You can use a variety of tools to gather that data. For instance, you can gather primary market research by using the following:

- ✓ Case studies
- ✓ Contacts with representatives, buyers and resellers, and end-users
- ✓ Field tests
- ✓ Focus groups
- ✓ Interviews

### ***Surveying select people***

The *survey method* is a research technique in which information is gathered from people through the use of surveys and questionnaires. It's the most frequently used method of collecting primary data. Survey research can be conducted in person, by phone, by mail, or over the Internet:

- ✔ Personal interviews can be conducted in focus groups, door-to-door, or randomly in central locations. A major advantage when it comes to personal interviews is they get much better responses than mail, phone, or Internet surveys do. However, telephone interviews do serve as a quick and relatively inexpensive way to conduct an interview.

*Focus groups* typically involve 8 to 12 people that are brought together to evaluate advertising, a product, a design, or a marketing strategy under a skilled moderator.

- ✔ While mailed surveys tend to have a low response rate, a successful survey can get a 10 percent response when you offer some type of incentive to complete the survey and return it. Incentives help convince more individuals to respond.
- ✔ Internet-based surveys are quick, and they eliminate the need for data entry, which is in itself a timesaver. A draw to using the Internet is that the surveys are limited to individuals that have access to the Web; however, this number is growing annually. Another drawback is that people dislike receiving uninvited e-mail surveys.



When you decide how to collect the information and conduct the survey, you then write the questions according to the specific needs of that type of survey. You need to carefully construct, format, and administer your questionnaires and collection forms because doing so allows you to obtain unbiased data and increase your response rate. (See the later section “Crafting and presenting questions effectively” for guidance in this task.)

Your administration of a questionnaire must be structured and planned. You must select participants in an unbiased way, and you need to explain the survey's purpose either in person or on the questionnaire. If you make a mistake in the way that the questionnaire is structured or administered, you may come up with inaccurate and unreliable results.

### ***Gathering information through observation***

The *observation method* is a research method in which the actions of people are watched and recorded either by cameras or by observers. A *mystery shopper* is an effective observation method. A mystery shopper is a researcher who poses as a customer or client. The shopper observes the interactions between customers and salespeople to evaluate the effectiveness of sales staff. The mystery shopper concept is becoming popular among service offices such as physician and attorney offices as well.

One disadvantage to the observation method is that it can't measure attitudes or motivation. However, this method has two significant advantages:

- ✔ It's more time efficient than personal interviews.
- ✔ People are unaware they're being observed, so they act as they normally would. This candid behavior provides a clear picture of the interaction that takes place.

When using the observation method, you want to watch behaviors and take careful notes. For example, be sure to note the following:

- ✔ What are the participants saying and how are they reacting to the product or the situation?
- ✔ What type of language are participants using to express themselves, and what is their mood?
- ✔ How are the participants thinking and feeling during the process?



Sometimes these things are easier to observe in an interview process, so it's best to conduct on-site interviews whenever possible. Interviewing helps to put the participant in an environment where he can discuss the preceding items, thereby helping you gather additional data that may be needed in the research process.

*Point of sale research* is a form of research that combines natural observation with personal interviews to get people to explain buying behavior. Researchers observe shoppers to decide which ones to choose as research subjects. After observation, researchers approach the selected shoppers and ask them questions. This method of research provides fresh and accurate information from the consumer because the purchase has just been made.

The *experimental method* is an observation technique in which a researcher observes what happens when he changes one or more marketing variables while keeping the others constant under controlled conditions. This method isn't used as frequently because of the inaccuracy of the responses and the cost of setting up the research conditions.

## ***Crafting and presenting questions effectively***

The way that you present or word a question can impact the way that it's interpreted by the participant. For this reason, it's important to make sure that you craft your questions so they're simple and easy to understand. It's also important not to use questions that lead a participant in a specific direction.

You want to craft your questions in such a way that if a question doesn't apply to the participants, they can choose not to answer. The following sections list some guidelines to help you in crafting your questions correctly.

### *Selecting your question type carefully*

You can choose from a variety of question types. For example, you can use any of the following:

- ✔ **Open-ended questions:** These questions ask respondents to construct their own responses. These questions are good for gathering opinions from participants and gaining a wider range of knowledge than you would when using a question that has fixed answers.
- ✔ **Forced-choice questions:** These questions make the respondent choose answers only from the possibilities presented on the questionnaire. Force-choice questions can be used to rate a product or service based on a scale.
- ✔ **Yes/no questions:** This type of question allows the participant to select only “yes” or “no” as a response. You only want to use yes/no questions when asking for a response on one issue. When you use yes/no questions that ask about more than one issue, the reliability and validity of the answer is decreased. That's because this type of question doesn't allow for a gray area with the participant. If they're in the middle on whether they would choose “yes” or “no,” they must select one or the other, because there's no in-between answer.
- ✔ **Multiple-choice questions:** These questions give the respondent several choices. When you construct multiple-choice questions, it's vital that you make the options mutually exclusive and comprehensive enough to include every possible response.



If you offer the choice of “other,” you increase the reliability of the multiple-choice question. Why? Because, participants are able to make a selection that isn't necessarily listed. If the “other” answer isn't presented, they will only select one because they have to. Multiple-choice questions are great to use when asking about benefits they're interested in or regarding the competitor that they would select when faced with the decision.

- ✔ **Level-of-agreement questions:** These questions make statements and ask your subjects for their level of agreement regarding those statements. The commonly used options for these types of questions include strongly agree, agree, neutral, disagree, and strongly disagree.

Answers to level-of-agreement questions can vary and cloud results, because they aren't absolute and they're based on attitudes and emotions rather than on statistical data. These questions are good when you're looking to offer a forced-choice question, such as asking them to rate the product or service you've provided them.



You need to be careful of the structure you choose for specific questions, because the way that you format or structure a question can lead participants in how they answer. Each question on your questionnaire must have a specific purpose or it shouldn't be included. The goal of the question is to obtain some piece of required information.

### *Following basic guidelines*

Here are some basic guidelines to follow when creating your collection forms and questionnaires:

- ✓ **Each question must be written so it's clear and as brief as possible.** It's important to choose questions that all participants can understand, because misunderstood questions produce unreliable and inaccurate results.
- ✓ **You want to use a consistent ranking scale for all similar questions.** Using an inconsistent ranking scale can be confusing to the participant and can lead to unreliable and inaccurate results.
- ✓ **Always avoid leading questions or introducing biases.** If you lead a participant to answer in one way or another, you don't know if she selected the answer based on her own viewpoint or if she selected it because she was led in that direction.
- ✓ **Don't use questions that make your respondent guess.** If your participants are guessing and not providing you with accurate answers, your results will be skewed and may not necessarily represent the true picture when analyzed.



You can use questions to establish rapport with your subjects, especially if you're seeking sensitive information. You position the sensitive questions in ways that increase the likelihood of an honest response. Consider the following techniques:

- ✓ **Place the question in a series of questions that are less personal.** This technique allows the participant to answer honestly without feeling like she's being personally attacked or judged.
- ✓ **State that the behavior or attitude isn't so unusual.** Participants often answer in ways that protect their own attitudes or viewpoints. By stating that a behavior or attitude isn't unusual, you make them feel more comfortable to provide a true answer, even if they feel that answer is against the norms of society.
- ✓ **Phrase the question in terms of other people, not your subject.** When you do this, you help the participants not feel as if they're being personally interrogated or judged by their answers.

- ✔ **Provide response choices that specify ranges, not exact numbers.** This helps the participant to feel as if they're still maintaining a sense of privacy. For example, instead of saying "I make \$15,000 annually," it's easier for participants to say "I make between \$15,000 and \$20,000 annually." It helps them keep a level of anonymity but still provides you with the information that you need.

### *Presenting questions effectively*

When formatting your collection forms and questionnaires, be sure to use a dark ink on light paper and a font that's easy for your subjects to read. And use good-quality paper stock, which projects to the subjects that your questionnaire is important. Number the questionnaires in order to keep track of them. This way, you know if one has been lost.



Positioning and the order of questions can affect response. Here are some general suggestions to guide you:

- ✔ **Make your forms and questionnaires short enough that your subject doesn't get frustrated or tired while answering.** Try to keep your form or questionnaire under two pages. Beyond that you begin to lose the interest of your participant.
- ✔ **Use section headings and numbers on all individual survey sections, and number each question.** Doing so makes the organization and layout of the form or questionnaire easy for your subject to navigate and understand.
- ✔ **Group questions that pertain to demographics, such as age, gender, ethnicity, and education, together at the end of the survey.** This organization is effective because subjects are more likely to answer personal questions after completing other questions.
- ✔ **Place neutral questions at the beginning of your questionnaire to establish rapport and put your subject at ease.** These opening questions should be simple and nonthreatening.

## *Choosing Your Sampling Group*

Determining who you'll use as your sample group in your market research is crucial. If you don't take the time to identify the target market that will give you the answers you're looking for, you run the risk of introducing bias into the results. As a result, your data may be misleading and devalued. In this section, I discuss the steps in selecting a sample group and the things you should look for and be aware of when making your selection.

Not only do you have to evaluate the sample group in primary research, but you also need to evaluate the sample group used in secondary research.

Doing so helps you determine whether the research pertains to the target market you're focusing on.

Your *sampling group* is the pool from which your subjects are chosen — for example, from the telephone book, organization member lists, universities, or lists of past customers. You could use a telephone book as the sampling group from which you choose subjects, but there would be some shortcomings with this pool. Telephone books exclude those subjects who don't have home telephones or who have chosen not to be listed. It's also important to spend time evaluating the size of your sample group, because this too can skew research results.



No standards exist as to who you should include in your sampling group. And your sample size is subjective to your preference, your budget, and the consequences of your findings.

## *Establishing a sample size*

Your sample size depends on your trade, budget, and tolerance for error (which I talk about in the following section). Cost is an important factor when it comes to determining your sample size. If the ideal sample size and design methodology don't fit your budget, you'll have to make some trade-off decisions. However, it's possible that some of the trade-offs may compromise the quality and scope of your research. It's best to select a sample size that will provide you with as much accuracy in your results as possible. However, remember that even if you do find the need to compromise to stay within your budget, it's better to do so than to do no research at all.

Businesses make important, tactical, and strategic decisions based on research data that covers only 100, 50, or even 30 people. Even a small sampling of 1 percent can provide you with an accurate representation of a particular market. The sample size that you use is determined by the type of research you're doing.



Sample size is very subjective and I don't know the specifics of your market, so I can't tell you how large yours should be. If you need help determining your sample size, I'd suggest doing an Internet search for "sample size calculators." These calculators help you determine how big your sample size needs to be by taking into account specific variables of your market.

## *Planning ahead for possible sampling errors*

When choosing your sample group, you need to take into account the possibility of sampling errors. *Sampling errors* are due to the fact that data

collected is from a part of rather than the whole of the population. There's a trade-off between sample size and cost. The larger the sample size, the smaller the sampling error, but the higher the cost. After a certain point, the smaller sampling error can't be justified by the cost.



While a larger sample size may reduce sampling error, it actually may increase the total error. A larger size sampling may reduce the ability to follow up on nonresponses. And even if you have a sufficient number of follow-up interviews, a larger number of interviews may result in a less uniform interview process, which could increase biases.

Your sample size is subjective based on your own market, the type of research you're doing, and the information you're trying to gain from that research. There are no absolutes — only the very general guidelines I provide in this section.

## *Presenting, Interpreting, and Reporting Data*

The information that you gain from market research can only be used if you put it in a format that really represents and interprets the data in a way that's useful to your business practices and operations. Formatting information properly allows you to take the information that you've collected and view it in a way that's useful to your own business and marketing strategy. Having this information in a way that's easy to understand enables you to make smart business decisions and forecast the future of where your business is going. It also makes you aware of issues that may need to be fixed or corrected and provides you with information about product changes or innovations that need to take place.

### *Presenting the data*

*Descriptive data analysis* is used to describe the results you've obtained. In most cases, the results are merely used to provide a summary of the information that has been gathered without making a statement on whether the results hold up to a statistical evaluation.

You present *quantitative data* (data that reflects numerical or statistical values) by using visual formats such as charts, tables, or the measurement of central tendencies. If you've collected *qualitative data* (data reflecting characteristics, opinions, and other consumer behavior attributes), you present the information with coded or summarized grouping categories.

Sometimes data may not be in the format that you need for further analysis, in which case you need to “clean” the data. This may require you to drop problematic data altogether or in part by excluding a specific question, depending on what depth the unclean data skews the research results.



You must also take into account sampling errors that occur. In the preceding section, I discuss how to avoid sampling errors. However, they still often occur, so in this section I show you how to recognize and handle those errors so that they don’t affect the outcome of your market research. A few of the reasons data may be problematic include

- ✔ **Incomplete responses:** This error often occurs when the method of data collection isn’t fully completed. For example, your subject may have skipped some questions or failed to provide you with necessary information.
- ✔ **Data entry error:** This error occurs when the information isn’t recorded properly. For example, your subject may have marked “disagree” but it could have been entered as “strongly agree.” These errors also can happen when data entry operators are fatigued or just careless in their entries. You must be aware of these not only with in-house staff, but also with market research companies that you outsource to. Data entry errors are difficult to catch. They’re typically caught by supervising the entry at periodic times or watching for inconsistencies within the data.
- ✔ **Questionable entry:** These errors appear when there’s an inconsistency in the subject’s responses. You often see this when your subject doesn’t answer honestly or doesn’t understand the question.

## *Interpreting the data and devising solutions*

Inferential data is used when you want to move beyond simply describing the results and begin making judgments about specific issues. For instance, *inferential data analysis* allows you to use the information you’ve obtained from a small group to make judgments about a larger group. You can use this type of analysis to compare groups and see whether there’s a difference in how they responded to an issue. You also can use this type of analysis to forecast what may happen based on the information you’ve collected.

In order to use inferential data effectively, you need a well-structured research plan that follows the scientific method. You’ll benefit more by using the quantitative data collection method rather than the qualitative method.



Your solution recommendations must be clear and well supported by the research data. If you've done the research yourself, you're more than likely safe when following solution recommendations. However, when you use secondary data and base businesses decision on that data, you can run into problems. So you want to ensure that the secondary data you have collected is reliable and of good quality. You also want to make sure that it's collected from the same target market that you'll be providing your solutions and marketing to.

## *Preparing a formal report*

If you need to prepare a formal report, you must prepare a written report that outlines what was researched and what resulted from the research. In a formal situation, you'll likely be required to prepare an oral presentation as well.

A typical formal research report includes the following elements:

- ✓ Title page
- ✓ Acknowledgements of people who assisted
- ✓ Table of contents
- ✓ List of tables, figures, charts, and graphs

When recommending solutions to the problem, be sure to include the following contents:

- ✓ Introduction
- ✓ Review of the research information
- ✓ Procedures used
- ✓ Findings of your research
- ✓ Recommendations
- ✓ Summary and conclusions
- ✓ Appendixes
- ✓ Bibliography



If you've created an effective research report, you'll be able to use the report to make decisions about marketing strategies to address the researched problem or issue. And after the research is completed, you can implement changes that need to be made, and then you can carefully monitor and track the results in order to evaluate whether the changes you've made are a success.

## Chapter 13

# Identifying Target Markets through Segmentation

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### *In This Chapter*

- ▶ Breaking your market into segments
  - ▶ Walking through the segmentation process step by step
- 

**T**he term *market segmentation* often scares business owners. They sometimes feel that if they segment their market, they're narrowing their chances for sales. This thought couldn't be farther from the truth. Instead, segmentation enables you to create specific market strategies that are geared toward specific markets. You'll find that by using segmentation, you can gain the highest return on your marketing and sales efforts. Developing a solid understanding of the purposes and processes behind market segmentation can go a long way toward positively changing the way you approach your marketing program.

In this chapter, I help you get a solid handle on market segmentation. I start out by explaining the basics of segmentation, clarifying what it is and why it's such an important part of a successful marketing plan. I also walk you, step by step, through the segmentation process, showing you how to apply knowledge of consumer behavior in order to narrow the range of customers you focus on.

## *An Introduction to Market Segmentation*

In simple terms, *market segmentation* is the process of dividing a total market into market groups that consist of people who have similar needs and desires. The process of segmentation purposely focuses on creating marketing strategies for consumers that have similar interest and needs, instead of the opposite, which is mass marketing and creating campaigns that treat consumers with a "one-size-fits-all" marketing approach. Segmentation enables you to target customers most effectively.



Your *core market* is the largest market that your business reaches. For example, say you have a golf course; your core market would be golf enthusiasts. If the customers within your core market have differences that require different target messages, you need to create a variety of small *submarkets* that you address individually.

The best way to gauge whether you should break your core market into submarkets is to evaluate whether certain groups within your core would have an interest in specific products or services that you offer. In the case of the golf example, your submarkets may include those interested in equipment, those interested in using your golf course, and those interested in golf camps or lessons. So your *target market* — the one you pitch your product or service to — can be either your core market or a subset of your core market.

Later in this chapter, I walk you through the details of applying market segmentation; for now, in the following sections, I explain why segmentation is a vital part of marketing efforts and provide you with a quick preview of the process.

## *Understanding why segmentation is important*

If you expect to use marketing segmentation properly, you must first understand why it's so important and how it affects your marketing efforts. Marketing segmentation has several main advantages:

- ✔ **You save time and money by focusing your efforts on the right customers.** When you segment properly, you ensure the highest return on your marketing investment, because you only market to those consumers who are interested in what you're offering and are, therefore, most likely to purchase your products or services.

Segmentation allows you to personally address the needs and expectations of that clearly defined group of consumers with a marketing mix that consists of product characteristics, price, promotional activities, and places to present the product. (For more on the four Ps of marketing, head to Chapter 3.) You will find that not only is segmenting your markets cost-effective, but it also actually makes your marketing easier.

- ✔ **Your marketing messages are more focused and, therefore, more effective.** When you create market segments, you can create different messages that cater to each individual segment. These messages are what the marketing world refers to as *positioning messages*. With these messages, you communicate your unique selling advantage or proposition in a targeted message to your segments. You must use positioning in every aspect of business, including in marketing, sales, and customer service.





If you accurately position your product or service, it should answer the following question: Why will someone in my selected segment buy my product or service rather than my competition's product or service? Additionally, the consistency of your marketing message helps your customer remember you.

- ✓ **You may be inspired with new product ideas.** By identifying and recognizing potential customer needs, you become equipped with information that you can use to create additional products and services that would be of interest to your customer.

To help solidify your understanding of market segmentation, take a look at the following scenario, which is an example of effective segmentation:

You're thumbing through a high-end fashion magazine. You run across an advertisement for a vacation broker that features trips to New York, Paris, and Los Angeles. The advertisement appeals to fashion-centric individuals. You expect to see this type of ad in a high-end fashion magazine because, if a woman is interested in fashion, these advertisements may catch her attention and move her to book a vacation to view a fashion show.

The next day you find yourself browsing through a magazine created for men who enjoy playing golf (you have eclectic reading habits, don't you?). You stumble across an advertisement from the same vacation broker, only this time it highlights vacation packages containing trips to some of the most exquisite golf courses in Las Vegas, Phoenix, and the Carolinas. This magazine caters to a different group of people, but the same broker is doing the advertising.

On the third day, you're at the garage having your oil changed, and you pick up a magazine that discusses the latest cars. While perusing the articles, you come across an advertisement by the same vacation broker. It's a little different from the first two. This time the ad showcases vacation packages to Monte Carlo, Berlin, and Le Mans — destinations that are home to many exotic races.

Clearly this vacation broker is using market segmentation. It's advertising in three different magazines with three different messages. The company offers the same core product in each advertisement — the ability to put together a comprehensive vacation package — but it focuses its marketing messages in ways that best appeal to target markets that it has identified.



By creating these types of segments, you can speak directly to your customers' varied interests and needs. Would the vacation advertisements have worked just as well if the company had placed the fashion advertisement in all three magazines? The answer is no.

## Figuring out how segmentation works

The basic criteria that you use for segmentation are universal. So before you can start working through the segmentation process, you need to get a handle on those criteria, which are referred to as *variables*. Marketers use variables as guidance throughout the segmentation process. You could almost look at variables as the “qualifiers” of specific targeted markets that are identified.

### The variables

The key task is to find the variables that split the market into actionable segments. You generally use two sets of segmentation variables to split your market:

- ✓ **Customer needs:** *Customer needs* represent the needs that your customer has that your product or service meets. They’re the most basic means of segmenting your market. In this case, you identify a product benefit that satisfies the needs of a particular group (or groups) of customers.

For example, if you run a golf course and are segmenting according to customer needs, you could create three groups: Those who are interested in using the golf course services, those who are interested in purchasing equipment, and those who are interested in lessons.

- ✓ **Profiler bases:** *Profiler bases* are profiles you’ve created that contain commonalities that potential customers may have. When you use profiles to segment your market, you forgo customer needs and instead use more descriptive and measurable consumer characteristics, including demographic, psychographic, geographic, and behavioral bases.

For example, if you’re the golf course owner, you have to figure out whether you have customers that live in a specific region and whether they have specific demographics or behaviors in common. Here’s why profiler bases work well: If you do own the golf course (and let’s say you have multiple locations), you could segment your market by the area that the customers are located in. This would work especially well if you were marketing a special event in the same area that a group of your customers lives in.



To properly segment your market you want to look at both variables — consumer needs *and* profiler bases — in order to identify specific segments in your market. Say, for instance, you’re having a special golf lesson event at a specific location. You can now use both variables to create your marketing message and identify where that message needs to be delivered. You want to segment using the customer needs to identify which customers are interested in lessons, and then you want to use the profiler base in order to identify which of those customers are in the location of your special golf lesson event.



### *The process*

To make your way through the process of segmentation, you follow these steps:

**1. Identify your core market.**

This step is vital because it's the foundation of creating your segments.

**2. Determine whether your core market qualifies for segmentation.**

You must follow through with this step to identify whether your core market fits in with segmentation criteria.

**3. Evaluate your core market for potential success.**

The idea of segmentation is to create marketing messages that perform better, so in this step you evaluate that potential.

**4. Identify potential customer needs.**

In order to speak directly with your marketing message, you must identify the needs of your customers.

**5. Identify submarkets within your core market.**

In this step, you determine whether you have small groups within your core market that would benefit from segmentation.

**6. Identify segment dimensions.**

In Steps 4 and 5 you identify the variables that you use in the segmentation process; you use those variables to identify your target market, which represents your core market as well as submarkets within that group. Within these groups the customers will have similarities as well as differences. So within your core group, you can have different target messages.

**7. Evaluate the market segments.**

At this point, your segmentation is already complete, and you're now evaluating the segments you've identified. Consumers don't always share the same reaction to marketing messages, so you first want to identify the behavior of each segment. This way you can create a marketing message that appeals and attracts them.

Then you estimate the size and revenue potential of your market segments. Doing so is important because you want to gauge the size of a marketing segment before investing time, money, and resources that you may not get back.

In the remaining sections of this chapter, I explain the nuts and bolts of each step in the segmentation process. So read on for more details.

## *Step 1: Identify Your Core Market by Using Profiler Bases*

The process of identifying a core market can sometimes be easier for a business that's already in existence, because you can look at the data from your company's history and identify the most common customer needs and profiler base variables. However, if you're a new company, the process can be somewhat more difficult — but not impossible.

With a new business, the historical data to use when identifying your core market will not be available, so you need to use your own expertise in your business to determine which consumers will represent your core market. You identify your core market by using the profiler bases I mention in the “Figuring out how segmentation works” section, earlier in this chapter.

### *Deciding which profiler bases to use*

There are four basic criteria you can use to create your profiles: demographics, psychographics, geographics, and behaviors. Even though I explain only four basic profiles in the following sections, you may have unique bases that you want to use when segmenting your core market. Additionally, when segmenting with profiler bases, it's possible to use more than one profile in order to narrow down segments of your market and gain a better perspective of the commonalities in that core market.

The easiest way to determine what profile to use is to sit down and evaluate the consumers you're selling your products to. Are their commonalities surrounded by geographic data, behavior data, psychographic data, or demographic data? If you don't have a current market, your profiler base will focus on the commonalities of your ideal market.



When selecting a profiler base to segment your target market, keep in mind that demographic and geographic bases aren't as useful as psychographic or behavior bases in determining what actually motivates people to buy products or use services. The demographic and geographic bases are less subjective (or more objective). If you do use these objective bases, use them when you first start segmenting, and then develop a marketing mix that triggers motivation by using the psychographic and behavior bases.



I find it easiest to identify a core market by making a list of customer groups on a piece of paper and then identifying their common traits in one column and differences in another. You can also then create submarkets with that same list. For example, in Table 13-1, I've created a list for a core market

called “golf enthusiasts.” As you apply the profiler bases to identify your core market, make a list like the one in Table 13-1 so you can see your consumers’ differences and similarities at a glance.

**Table 13-1 Common Traits among Core Market of Golf Enthusiasts**

<i>Differences</i>	<i>Similarities</i>
Age	Enjoy golf
Location	Median income of \$80,000 annually
Ethnicity	

When you try this exercise, you may only have two groups or you may have several. There are no right or wrong answers, because the number of sub-groups is dependent on your business.



During the beginning stages of the segmentation of your market, it’s important that you not make general assumptions or start with narrow-minded thoughts about who represents your core market. There are many variables to consider in the segmentation process, and uncovering all the dimensions takes creativity and methodology. You want to use your knowledge, experience, and common sense in determining these variables.

## *Applying the demographic base*

The *demographic base* attempts to segment your market with descriptive characteristics such as gender, age, ethnicity, education, occupation, life cycle, and income level. For example, in evaluating demographics, perhaps you find that the majority of consumers that purchase from you work as physicians. You can use this as a profiler base and create a segment of physicians that buy from you. This allows you to create a targeted marketing message to physicians that purchase your product or that are potential consumers of future purchases of your product.



The demographic base is the largest of the four segmentation bases used by marketers. It’s also the easiest to quantify and understand. However, the byproduct of all this simplicity is that demographics aren’t all that useful in predicting specific buyer behaviors. Demographics rarely allow you to predict buyer behavior because the characteristics are often so similar that it’s difficult to differentiate the needs of each segment. You’ll often find that the segments within this base have similar brand preferences, consumption patterns, and media exposure patterns. So the segments aren’t of much predictive use if most folks behave similarly.

Marketers use this base as a way to create a cut-and-dried method of segmentation that's less subjective than the other bases. You can always identify age and gender, which helps when fine-tuning your marketing message. That's because what may appeal to a man may not appeal to a woman, and in the same fashion what may appeal to someone who's 65 may not appeal to someone who's 21.

To determine the demographic base of a given population, all you need to do is get the answers to the following 13 standard questions:

- ✓ What is your age?
- ✓ What is your gender?
- ✓ What is your primary language?
- ✓ What is the highest level of education you have completed?
- ✓ What ethnicity group would you classify yourself with?
- ✓ What country do you currently live in?
- ✓ How long have you lived there?
- ✓ What is your current household income?
- ✓ Do you rent or own your home?
- ✓ How many children under 16 live in your household?
- ✓ What is your current employment status?
- ✓ What is your individual annual income?
- ✓ What is your religious affiliation?



You can use the answers to these questions in order to create an in-depth report on the demographics that your core market represents. You then use that data to focus on deeper submarkets that you can market specifically to, using the absolute data you've gathered. For guidance in soliciting the answers to these questions from the right people, head to Chapter 12.

## *Applying the psychographic base*

The *psychographic base* focuses on the customer's state of mind and its direct influence on buyer behavior. Characteristics that are included in the psychographic base are social class, values, personality, and lifestyle. For instance, perhaps you find that a large percentage of those that purchase from you are in the upper social class and live a wealthy lifestyle. You could segment this group and create a message that specifically pertains to its lifestyle and why those that live that lifestyle purchase your product. Doing so would help you create a message that was targeted toward that specific social class and lifestyle, making your message personally appealing and enticing to them.



The psychographic base is more subjective than objective. So your answers aren't as cut and dried as they would be with the demographic base. Because this area of creating a segment will be more subjective, you want to make yourself more aware of the attitudes that surround the psychographic base that you decide to market to. Refer to Chapter 6 for more information on consumer attitudes.

The characteristics of psychological bases are measured by Attitude, Interest, Opinion surveys, or *AIO surveys*. AIO surveys are designed and implemented by outsourced market research companies. These companies ask customers if they agree or disagree with a series of statements describing various activities, interests, and opinions. The data from these surveys allow companies to develop lifestyle profiles, which are representative of your core market and what interests that market has. It also helps in identifying the subjective behavior that your consumers represent. You can then use this information to create marketing messages that appeal to the motivations of your consumers.



Because the psychographic base can be costly to implement, most small businesses avoid using it.

## *Applying the geographic base*

The *geographic base* focuses on the location of prospective target markets and distinguishes characteristics associated with each location. The geographic base looks at characteristics such as region, climate, population density, and population growth rate. You can use this information to create marketing messages that appeal to consumers in specific geographical areas.

For example, let's say that you realize that the majority of your customers that purchase are in a warm climate. In other words, you realize that you actually sell more to the people of the West Coast than to those on the East Coast. Your product may not even be seasonal, but for some reason it's received more in warmer climates. So you make the decision to create a marketing strategy specifically for those climate areas.

As you can see with the example, this base of segmentation allows companies to focus on a single area, a few areas, or many areas depending on certain considerations, such as the size of each geographic area and the cost of serving it. It's possible to serve many geographic locations with success. You can use the geographic segments to tailor to different natures and needs in each area.



Consider again the warmer climate scenario I mention earlier. If you were in this situation, you would take a deeper look into your product to find out why that product sells to a client in a warmer area. Create some bullet points that represent why your product sells in those warmer climates and create a marketing message around those bullet points. This exercise can help you in tailoring your message directly to those climates.

## *Applying the behavior base*

The *behavior base* defines a target market by how a group behaves, as consumers, toward a seller's offering. The behavior base looks at characteristics such as usage rate and patterns, price sensitivity, brand loyalty, and benefits sought. An example of the behavior base would be how often customers use a product or service, how loyal they are to it, and what benefits they seek from it.

The behavior base isn't as absolute as the geographic or demographic base, but it does provide you with useful information. You can use the behavior base to determine the following:

- ✓ The benefits that consumers are interested in
- ✓ How much they use your products or your competitor's products
- ✓ What their readiness to buy is
- ✓ The occasions that stimulate the purchase of your products

This information is helpful in creating marketing messages that appeal to the motivations of your consumers and that trigger positive consumer behavior toward your product.

## *Step 2: Determine Whether Your Core Market Qualifies for Segmentation*

After you identify your core market (see the previous sections for details), it's important to find out whether your core group qualifies for the segmentation process (because not all do!). To find out whether your core market qualifies, ask yourself the following questions:

- ✓ **Is your core market group large enough to support your objective?** This is a crucial question. It's especially important if you find that you're serving a competitive market. That's because you'll have competition in gaining market share. You answer this question by measuring the potential of that market (based on those consumers' buying behaviors) and identifying the size of your core market to ensure that it can support you, even if you experience a large volume of competition.
- ✓ **Does your core market group show signs of growth?** You don't want to enter a market that's flat or declining, especially if you're going head-to-head with other competitors.

- ✔ **Does your company have the necessary skills, knowledge, and expertise to serve this core market group?** A company's skills, knowledge, and expertise sell a product to consumers. Make sure that you can communicate with your customers in the segment; otherwise you may find yourself facing a learning curve in understanding how to effectively market to a particular segment. Evaluate and take note of not only your own knowledge, skills, and expertise, but also that of your competitors.
- ✔ **Does serving the needs of the group that you identified meet the mission of your company?** You don't want your segment to extend too far beyond the direction that your company has chosen to take.

Were you able to answer yes to all the previous questions? If so, congratulations! You're ready for the next step in segmentation. If not, take a look and evaluate what areas you're lacking in. Then make a plan to rectify those areas so you can either make a determination that the core market isn't right for you or create a plan to bring the company up to par when it comes to serving the core market you've identified.



Keep in mind that while the questions and research are important, it's equally important to go by your own intuition and judgment — you know your company better than anyone.

## *Step 3: Evaluate Your Core Market for Potential Success*

During this step, you determine whether the core market you have chosen is a successful market for you. After all, you never want to choose a core market that runs a risk of going flat or that shows no sign of upward growth. The ideal core market

- ✔ Is strong and showing signs of growth
- ✔ Is static and financially holding its own
- ✔ Has a high product demand and isn't showing signs of decreasing

If your target market meets these criteria, you're set. You have the ability to reach your business and financial goals by going after this core market.



The biggest challenge in this step is making sure that the breadth of your core is appropriate — not too narrow and not too broad for your business.

The following five questions can help you determine whether you've selected a core market that can be successful for you. When answering these questions, take into consideration your experience, your knowledge, and your common sense.

- ✔ What's the potential of increased profit in this target market?
- ✔ What are the similar needs of potential customers in this segment?
- ✔ What are the different needs of potential customers in this segment?
- ✔ What's the ability to attain consumer purchase action by marketing to this segment?
- ✔ How difficult will it be to get buyers in this market?

The answers to the preceding questions will help you in determining the viability of the core market you're looking at going after. I call these the "hard" questions because they require more than a yes or no answer. Businesses often pick a target market without analyzing the "hard" questions. Big mistake. After answering the questions, you'll have a clear picture of current and future potential for the core market you've selected. Without that information, you could end up losing out on some big business and big bucks.



If you find that the core market you've decided on has potential, keep moving through the following steps. If you've found that the core market doesn't carry enough potential for success, spend some time going back and evaluating the variables of segmentation.

## *Step 4: Identify Potential Customer Needs*

Consumers make purchases on the basis of benefits and how a product helps them either by making their life easier or solving a need that they have identified. If you don't understand that need, you can't use it in a marketing message that will speak directly to consumers and motivate them to purchase.

You have to do some brainstorming in this step. I want you to switch places with your consumer and think about what you need. Right now, you're no longer the business owner; you're a consumer in your core market. The more needs you can come up with here, the better. When you started your business, you likely had ideas of what your customers needed. Do you remember what those needs were? If you've been in business for any amount of time, I'm sure that you've become even more aware of needs that you didn't know of in the beginning.

In Step 1, you focus on the profiler bases where you identified your core market. With that core market in mind, answer the following questions:

- ✔ Why should your customer buy from you?
- ✔ What is it that you offer that should persuade your customer to make a buying decision?
- ✔ What benefits and features that you offer appeal to your customer?

You can use the answers to these questions to help construct your marketing message in a way that helps consumers relate to the message. (Chapter 16 helps you create a targeted marketing message.)

## *Step 5: Segment Your Core Market into Submarkets*

In this step, you come up with ideas for any submarkets that represent groups within the core market or segment you've identified. Just remember to segment smaller markets only when you have the ability to satisfy each group's needs by using the same marketing mix.



The best way to work through this step is to use the core market that you identified in Step 1. Really spend some time focusing on the characteristics of the customers that are within that core group — specifically on a major need that they have. After that, it's time to think outside your “core” box. What needs do they have in common? Are there specific benefits they all look for when evaluating your product? The idea is to begin to evaluate submarkets within your core market so that you can create specific marketing messages based on their needs (rather than an “all-for-one” marketing message).

Try creating a new list that consists of customer-related benefits that you offer with your products or services in order to help consumers see value in your product or service. An example may be that you offer car wash services, but you're a traveling business. You go to the location of the customers to wash their cars while they're at work. This setup saves your customers time. You benefit by being able to charge a premium because of the convenience that you offer. Your demographics for this car wash service include:

- ✔ Professionals who work a minimum of 65 hours per week.
- ✔ Owners of swanky cars. (Maybe most cars that you wash have a value of \$50,000 or more.)

You may have initially targeted investment firms as a submarket. One of your major resources of clients has over 150 employees with a median salary of \$90,000 per year. Now, consider where else you can find a company with more than 150 employees with that kind of median salary: I'd say that leading law firms may be the next submarket for you to explore.

## Step 6: Identify Segment Dimensions

Consumers view specific dimensions of a product as important to them when purchasing. They place varying levels of importance on the dimensions that carry more value for them. When you understand the dimensions that your target market views with a higher level of importance, you can better position your product when marketing it to them. In other words, you can craft your message to the specific dimensions. Ideally, a product market will be described in terms of customer behavior, customer urgency to satisfy his or her needs, and customer geographic location.



Segmenting by using dimensions as a way to target multiple submarkets with different marketing messages can help in guiding your marketing mix planning. You can use the different dimensions to focus on four key factors when marketing to specific submarkets and segments that you've identified, including:

- ✓ Purchase behavior that's relevant to your product
- ✓ Consumer types that are relevant to your product
- ✓ Purchase influences that are specific to your product
- ✓ Attraction that's relevant to your product and to your brand

### *Recognizing the two main types of dimensions*

Different dimensions are available for you to use when segmenting your markets. There are actually two dimensions; however, those dimensions can encompass different factors, but they fit into only one of the following categories:

- ✓ **Qualifying dimensions:** *Qualifying dimensions* are those dimensions that are required in order to include a specific customer in a product market. For example, customers must have enough money to afford a specific product in order to qualify as a potential market or submarket member. Qualifying dimensions help identify the core features that must be offered to everyone in a product market.

- ✔ **Determining dimensions:** *Determining dimensions* are those dimensions that actually affect the customer's purchase of a specific product or brand in a product market. For example, customers in need of something in a general product category can be further segmented into groups depending on which features are most important to their needs. In the car market, for instance, "sporty" and "economical" may be different determining dimensions for different consumers.

## *Calling out category-specific dimensions*



You must take two categories into consideration when dealing with dimensions: the consumer market category and the business market category. In other words, is your market a business-to-consumer market or is it a business-to-business market? It's important to identify which market you're selling to, because the needs and determining dimensions for each group are different. Consumer and business markets differ in two very distinctive ways:

- ✔ **Business markets are more likely to be price driven than brand driven**, which means that your marketing message must focus on the sensitivity of price in order to attract the business market.
- ✔ **Demand in business markets tends to be more volatile than in consumer markets**, which means that your competition can be tough. You must create a message that's consistent and really focuses on the dimensions of interest in your target market in order to gain the attention you need to sell your product.

Each dimension refers to what marketers must evaluate when marketing to specific segments. These are the dimensions consumers often use to make the determination to purchase or not to purchase. Flip to Chapter 21 for more on the differences between business-to-business markets and business-to-consumer markets.

### *The consumer market*

In the consumer market, you need to take the following dimensions into consideration:

- ✔ **Attitudes:** Consumers have attitudes about specific products and brands, so it's important to understand the dimension that they have about your product or what type of attitude you would like to create about your product when marketing to them.
- ✔ **Brand familiarity:** Consumers often buy products they're familiar with, so you can use this dimension when marketing your product. The more you create familiarity, the more apt consumers are to remember and buy your product.

- ✔ **Geographic location:** Consumers look for convenience and whether your product is available in specific locations. Use this dimension when marketing in order to make consumers aware that your product is available to them at convenient locations.
- ✔ **Income:** It's important to consider this dimension when marketing your product, because you don't want to select a specific segment if your product is out of that segment's price range.
- ✔ **Needs:** Consumers buy on the basis of benefits and needs. So, when marketing, you can use this dimension to make consumers aware of what need you solve for them.
- ✔ **Purchase relationships:** Consumers buy on the basis of relationships. So when evaluating this dimension, you want to weigh the importance of a relationship with the segment you've selected. This way you create relationships through marketing with the segments that find this dimension important.

### *The business market*

In the business market, pay attention to these dimensions:

- ✔ **Buying situation:** Business consumers purchase based on need and convenience. You want to evaluate whether you're providing them with a convenient buying situation; if so, you want to focus on this when marketing to them.
- ✔ **Closeness of relationship with customer:** Business consumers find that relationships are important to them when they purchase. So, if this dimension is of high priority to them, you must work to create a relationship, using your marketing message in order to encourage them to purchase from you.
- ✔ **Geographic location:** Businesses, just like consumers, look for convenience. So if your product is available in specific locations, you want to use this dimension when marketing. This way you know the business is aware that your product is available to them at a convenient location.
- ✔ **North American Industry Classification System codes (NAICS):** Businesses often evaluate the NAICS in order to determine who they'll purchase from. If this is a dimension that's important to your potential business consumer, you want to market your participation and industry classification.
- ✔ **Reciprocity:** Business consumers strive to work with companies that reciprocate in purchases or send referral business, so you need to evaluate the importance of this dimension.

- ✔ **Size:** Business consumers often look at the size of a business they're purchasing from. So be prepared to explain the size of your business in a positive and optimistic manner. Be sure to emphasize the benefits of working with a company your size.
- ✔ **Source loyalty:** Business consumers like to work with companies that are loyal to them. If this is a strong dimension for your prospective business consumer, be prepared to explain your view on loyalty and how your company works to keep that loyalty.
- ✔ **Type of organization:** Business consumers often like to do business with specific types of organizations, so be well versed on the stance of the segment you're selling to when it comes to dealing with this dimension.
- ✔ **Type of product:** When purchasing, business consumers often evaluate the types of products as well as the quality of them. Evaluate this dimension to make a determination of the different types of products that you offer that will be of interest to your potential business consumer.

## Step 7: Evaluate Your Market Segments

It's time to determine which of your segments have the greatest potential to fulfill your overall business goals. Your goals probably include revenue, profits, and cash flow — as most business goals do.



Not all of your segments will satisfy these goals. Instead, when evaluating your segments, you'll more than likely come to the conclusion that some of them may be money drains at the present time. They'll cost the company more money to service and support than the segment actually makes in revenue. This doesn't mean that the segments won't be prosperous later; so even though you may put them on the back burner for now, always remember to evaluate them for future potential.

### *Predicting consumer behavior within a specific segment*

The best way to evaluate the behavior of a specific segment is to gather enough information about the segment that you can create a clear picture of a typical member within the segment. Then create a buyer profile. A *buyer profile* paints the picture of the buyer's motivation, location, and buying habits. It does this by exploring the following questions:

- ✓ How do they buy?
- ✓ Why do they buy?
- ✓ When do they buy?
- ✓ Where do they buy?

When reviewing the typical buyer's buying habits, also consider past and potential future economic issues and how they might affect the frequency and value a consumer places on the purchases of your products and services. When you're determining the segment you want to target, first look at the economic stability of that segment. You do this in order to ensure that you aren't entering into a dead end that will cost you resources with no return. If you do find that there are economic issues, such as layoffs, bankruptcies due to an economic downturn, or low economic resources, take some time to research how those issues could affect your business if you do decide to proceed into the segment anyway. You always want to make an educated and well-informed decision.



Considering these economic issues gives you a greater grasp on evaluating the success of a specific market segment and how the buyers within it will respond to your offer. When evaluating market segment behavior, know that it takes three to four weeks to build a buyer profile of a particular segment's behavior toward a particular product. And keep in mind that research shows that customer behavior tends to shift over a three-month period. This is important to remember because you want to have three months of data in order to accurately evaluate the segment.

The truth is, you really can't predict the buying behavior of your customers. However, you can gather as much information as possible to lower the risk in specific segments by evaluating the segments before entering them. Because there are so many unknowns to new markets, it's important to evaluate every angle — from buying behavior and consumption patterns to economic issues and difficulties you may not have considered.

## *Estimating segment size and revenue potential*

It's important when evaluating and developing segments that you take a hard look at the size and revenue potential of that segment. In this section, I discuss how to evaluate and estimate the segment's value as it pertains to time and money.

### ***Using the market segmentation estimation formula, the preferred method***

The *market segmentation estimation method* is useful when you have general data about the segment you're entering. I always advise using this method, because with general data, you're gaining a clear and accurate estimation; with the other formulas, you'll spend a lot of time guessing and estimating figures that you'll more than likely not have access to. The market segment estimation method seems to be the quickest and easiest one to use. The formula is as follows — all the numbers pertain specifically to the segment demographic:

$$\begin{array}{l} \text{Estimated population} \\ \square \% \text{ of people in target gender} \\ \times \% \text{ of people in target age group} \\ \hline \# \text{ of consumers in your segment demographic} \end{array}$$

After you calculate the number of consumers in your segment, you can calculate the potential revenue you'll earn from that segment by using this formula:

$$\begin{array}{l} \# \text{ of consumers in your segment demographic} \\ \square \% \text{ of people that will use your product} \\ \times \text{ price (in dollars) of product or service that you're selling} \\ \hline \text{potential revenue (in dollars) from that segment demographic} \end{array}$$

To use this evaluation method, you need the following figures, which you gather by conducting market research:

- ✓ Estimate of population within your segment demographic
- ✓ Estimated number of consumers that match the gender of your segment
- ✓ Estimated number of consumers that match the age of your segment
- ✓ Price that you will sell your product for (or the price that your competitors are selling similar products for if you haven't yet determined your price)



Estimate the numbers to the best of your ability; the more specific your data, the better the accuracy of the estimate you will have.

Use those figures as you work through the following steps to estimate the potential of your market segment:

**1. Estimate the population of your segment demographic.**

This is the population that you have estimated that represents the segment demographic that you have identified and will be marketing to. Suppose I'm selling lipstick and I know that within my demographic there are 52,000 people in my segment area.

**2. Multiply the number from Step 1 by the percentage of the gender of segment you will be marketing to.**

This will tell you the number of consumers within that segment that are the gender you'll be marketing to. For example, if you're marketing to only women in that population, you want to take the percentage of the population that is women and multiply that by the population estimate in order to gain the number of consumers in that area that are women. Of those 52,000 people, 35 percent of them are women. So the math goes like this:  $52,000 \times 0.35 = 18,200$ . In the segment area, 18,200 people are female.

**3. Multiply the number from Step 2 by the percentage of the consumers in the age group that you're targeting.**

This will tell you the number of consumers within that segment that represent the age group that you're targeting. My segment market includes women who are from 18 to 25 years old. Of the 18,200 women in my demographic only 15 percent of them are 18 to 25 years old. The math is as follows:  $18,200 \times 0.15 = 2,730$ . Of the number of females in my segment area, 2,730 are in the age group I'm targeting.

**4. Multiply the number you get in Step 3 by the percentage of those consumers that you think will purchase your product.**

Of the 2,730 females between the ages of 18 and 25 in my demographic area, I estimate that 65 percent wear lipstick. I have a potential audience of 1,174 consumers ( $2,730 \times 0.65 = 1,774$ ).

**5. Multiply the number you get in Step 4 by the price that you'll sell it for.**

You have determined that you'll have a potential customer base of 1,774 in Step 4, and you know that you'll sell your product for \$11.50. The potential revenue is \$20,401 ( $1,774 \times \$11.50 = \$20,401$ ).

This will give you an estimation of sales revenue that you can gain from that segment. Last year in my area approximately 30,000 tubes of lipstick were sold at an average price of \$13.50. My current competition has about 33 percent of the market share. Based on my features and benefits and consumer market feedback, I estimated a total unit sales potential of 12,000 tubes of lipstick at a retail price of \$11.50.  $12,000 \times \$11.50 = \$138,000$ . I can estimate that this segment will bring in \$138,000.

I can now use this information to determine whether I have selected a segment that has enough people and revenue to be worth my time to enter. If it does, I can begin to position my product specifically to this market by tailoring my marketing message to appeal and entice them to purchase from me.

### *Resorting to other methods*



Suppose there's very little information available for you to determine the size of a selected market segment. If that's the case, how can you estimate the revenue potential? You can use secondary research to gather specific information (see Chapter 12 for an explanation of research types), but if you're trying to keep cost down there are a few alternatives that you can use to estimate the market segment size:

- ✔ **Total the sales revenue of your competitors in the segment.** You can use this method to gain a general idea of how many products you should sell based on the sales of your competitors.
- ✔ **Total the purchase dollars spent by the customers in your segment.** This method is good to use when you know how many purchases consumers in that identified segment made when purchasing like products.
- ✔ **Take your estimated number of sales in the segment, estimate your share, and then multiply.** If you can accurately estimate how many products you'll sell and the percentage of the market share you'll own, this is a great method to use in order to gain a clear picture.
- ✔ **Total the sales number of key suppliers into the segment and estimate the sales revenue this represents.** If you have access to supplier information and can get the sales revenue for the segment you've identified, this is a good method to estimate the potential sales of your product in the area because it isn't limited to one supplier.



## Chapter 14

# Unearthing New Market Opportunities

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### *In This Chapter*

- ▶ Understanding areas for new market opportunities
  - ▶ Searching for untapped markets
  - ▶ Evaluating whether to go ahead with a market entry
- 

Nothing is more important to businesses than finding and exploiting untapped markets and opportunities. Gaining market share and creating stability by not having all your eggs in one basket, so to speak, is crucial for success. Sure, efforts to take advantage of untapped opportunities come with increased investment and risk, but the long-term benefits can outweigh any temporary setbacks that you encounter. When done correctly, entering into untapped markets or creating new ones can help you experience sales growth, increased reputation, and bargaining power.

When exploring new market opportunities, your goal is to identify what opportunities are out there and then figure out how you can take advantage of them. And last — but definitely not least — you need to evaluate what the opportunity means to you in terms of value to your company. In this chapter, I show you how to do all three, using your consumer behavior knowledge as a guide during your strategic planning phase.



It's important to remember that your ultimate goal when it comes to marketing is to not only grow your business by attracting new customers, but also to use it to discover untapped marketing opportunities that will help you retain your current customers. So in this chapter, I also provide insight on finding opportunities to protect your current market share.

## *Finding and Recognizing Areas of Opportunity: A How-To Overview*

Although opportunities in and of themselves are endless, they generally fall into three categories. Because the categories focus on different aspects of business, it's helpful to conduct your search with an eye toward one at a time; otherwise, your mind may very well spontaneously combust, because you've cast your search over far too wide a terrain.

When seeking out opportunities in these categories, you should certainly conduct market research, but rely on internal resources as well — these resources offer a different perspective of the opportunities, because they help you examine the behaviors of your current customers.



### *What to look for: Opportunity types*

New market opportunities come in three forms: marketplace, product/service offerings, and marketing activities. Here's the rundown on each:

- ✓ **Marketplace opportunities** are opportunities to change where or how consumers can purchase your products or services. An example of a new marketplace opportunity may be offering your product online rather than just in physical store locations. These opportunities don't arise out of luck. Instead, you discover them by recognizing the various forces that change the way a marketplace is governed. These forces include additional competition, laws and regulations, economy cycles, and social change. In order to identify these opportunities, you must understand what's possible based on resources of both your company and the market itself.
- ✓ **Product/service opportunities** are opportunities that you can use to add new features or benefits to your current products or services. These also can represent opportunities for new products or services that you can offer to an existing customer base. You can often find opportunities in product offerings by evaluating your current consumers and the circumstances that surround them. Your objective is to determine the types of opportunities that exist within your products only. Your business may need to add, modify, or eliminate product features or even products.

For instance, I can create a product and offer it to my consumers. It offers them an added convenience and in return increases my revenue by being able to sell the new product to existing and new customers alike.

- ✔ **Marketing opportunities** are simply new ways that you can reach an untapped market simply by crafting your message to different groups and evaluating different placements of your marketing message. For instance, you may want to create a new marketing message specifically showcasing your product benefits for a group that hasn't yet used your product. Or you may want to place your current marketing message in a different marketing vehicle. An example of this would be advertising in a different magazine or newspaper that reaches a new market.

## *Where to look: Information sources*

When searching for opportunities, you can find the information you need from the following sources:

- ✔ **Consumer knowledge and feedback:** The best way to find untapped markets or identify whether a market idea has potential is by using the knowledge of your current consumer base. You can ask your consumers questions regarding the products they're using or about needs that they feel aren't being met with the current product. Their answers give you the information you need to understand whether the development of more features or benefits in your current product would be beneficial or if you need to evaluate the creation of a new product to fulfill an unmet need that your consumers are experiencing.
- ✔ **Market research:** If you don't have a consumer base, you need to conduct some market research in order to find untapped markets and identify whether your idea has merit. In other words, you want to make sure that it isn't just a no-brain whim you thought up in the middle of the night.
- ✔ **Sales team knowledge:** It's also important to use the knowledge of your sales force. Salespeople are normally the first to know about new products that are needed or solutions that your consumers may be looking for.



You don't need a huge sales team to do this. In fact, you can probably do it yourself by simply listening to your consumers. Find out what they need that you can provide.

Use these sources and the information throughout this chapter to help find opportunities in your marketing that not only reach untapped markets, but allow you to monitor your marketing initiatives, awaken customers that haven't used your product in a while, and gain new business by trying new marketing methods.

## *Conducting the Search*

In order to find available opportunities, you must conduct a search that's detailed and informational. By detailed, I mean evaluate all three opportunity types in your search. This way you'll walk away with a clear understanding of which opportunity will be the strongest for you when it comes to finding new customers. By informational, I mean a search that provides you with the knowledge you need in order to assess the opportunities by evaluating the needs and exploring how you can fulfill those needs. This evaluation will help you determine whether the opportunity is in fact viable and worth pursuing from a business standpoint.

### *Seeking out unmet needs in the marketplace*

It's easy to make finding marketplace opportunities more difficult than it should be. When evaluating opportunities within the marketplace, you simply need to assess whether an opportunity to enter that market exists right now. You can do this by walking through the following process:

**1. Identify the marketplace opportunity.**

Look for opportunities that will help you gain the competitive edge against competitors.

**2. Focus on the consumers in that marketplace.**

Identify the typical consumers in that marketplace and evaluate their consumption patterns for the product you're offering.

**3. Assess the current competition in that marketplace.**

Identify the competition that already exists in the marketplace. Determine why your products are different from your competitor's and why a consumer should purchase from you instead.

When looking for new market opportunities, you must focus primarily on patterns and trends within that marketplace. And you want to evaluate patterns and trends not only of present customers, but also of previous and future customers as well. You'll be looking at the consumption patterns, sales patterns, customer satisfaction, and the trends of similar products within the marketplace. Usually with this information, you can discover whether a customer need exists because the customer isn't being satisfied by current products offered by the competition.



You can use the information from this process to determine whether entering into a specific marketplace opportunity would bring the potential of success. It will either cause you to feel comfortable about entering a marketplace or it will make you feel uncomfortable because the data doesn't prove that you'll have success. If you look at this information and don't see a need, it's probably wise to seek out other opportunities.

Here's an example to help you understand marketplace needs. Say that my marketplace is the university campus. I've looked at patterns and trends and have determined that the students order pizza from one business but are frustrated with the wait. I've also found that they would be willing to pay a little more for the convenience of quick delivery time. Here's the breakdown of the marketplace info:

- ✔ **Opportunity type:** I've identified an opportunity for a pizza shop located close to a university. The closest pizza shop is 45 minutes away. The business will deliver to the university, but the pizza is subpar and it takes nearly two hours for delivery. This information came from a survey I conducted with the potential customers that I identified.
- ✔ **Consumer:** My consumers are university students. With this group, I know that my prices must be competitive and that I'll need to keep the shop open late in order to serve the students' needs. I also gathered this information from the informal survey that I conducted.
- ✔ **Competition:** I've evaluated the competition and found that the closest shop is 45 minutes away. None of the other shops will deliver to the university due to the distance. This information came from market research that I conducted concerning my competition in the area.

As you can see, I've identified a marketplace opportunity. I can open a pizza shop near the university campus, provide the students with competitive prices, and deliver directly to the university. I will acquire business from my competitors, because I'll meet a need that they aren't meeting. Because this information shows me that my opportunity has potential for success, I can now begin to take steps in seizing this opportunity.

## *Looking at your products for new or improved product ideas*

You can expand your market by finding new users of your current product, new uses for your current product, or ways for consumers to use more of your current product.

For example, think of all the different uses of baking soda: cooking, cleaning, deodorizing, and so on. You can use each of these functions to market baking soda in a different way. You haven't changed the product; you've simply created the awareness by marketing the benefits of baking soda to showcase the multiple ways that consumers can use the product. You could market baking soda in a cooking magazine by showing the benefits of its uses when cooking. You also could market baking soda in a commercial that shows how to use it to clean stains out of a porcelain bathtub. Finally, you could market the benefits of using baking soda to deodorize a refrigerator. Marketing in this way increases the value perception as well as sales, because now consumers understand all the ways that this universal product can be used.

When you evaluate a product opportunity, you want to evaluate the following in order to validate the opportunity as credible and assess the potential success of that opportunity:

- ✔ **Product features:** You want to identify the features of the product that make the opportunity of interest to your customers. A product feature is what a product *does*. In a competitive market, when a consumer needs to make a decision between two comparable alternatives that provide the same benefits, he will base his decision on the features of the product.
- ✔ **Product benefits:** It's important that you identify the product benefits that will be of interest to the consumers. Then you can make a decision on whether they would purchase based on that benefit.



After evaluating the product features and benefits, you'll have the information you need to determine whether this opportunity holds merit for you and whether your customers would really see the value. In other words, you'll have the answer on whether you should pursue the opportunity.

As an example, say I own a jewelry store and I recognize an opportunity to offer an add-on product that will benefit my consumers. The customers who come to my store to have their jewelry cleaned always comment on how my jewelry cleaner enhances the appearance of their jewelry. I know they can't afford my high-tech machinery to clean their jewelry, but what if I could provide them with a solution that would make their jewelry sparkle? And what if that solution allowed them to clean their jewelry at home when they're unable to make it to my store?

I gained the knowledge of this opportunity from the many times my customers came in to have their rings cleaned. The comments they made after I had cleaned their rings helped me identify an unmet need. Here's where the evaluation comes in:

- ✔ **Product feature:** My customers could use this product to keep their jewelry clean and shiny. I recognized that the innovation of jewelry cleaner would meet a need that currently was unmet for my customers. I knew my consumers would enjoy a product that was cost-effective, portable, and as effective as if they had it done professionally.

- ✔ **Product benefit:** Customers can use this product in the comfort of their own homes when they can't make it to the jewelry shop. I knew that by providing my customers with the benefit of convenience and the ability to keep their jewelry looking its best, they would see this as a valued benefit and purchase the product.

When you evaluate a product opportunity, you get the full view of the potential that the product opportunity carries with it. In the preceding example, I recognized a need and, within that need, an opportunity. I created the product, satisfied the need of my customers, and increased my bottom line by generating additional sales of the jewelry cleaner.

## *Assessing whether new marketing activities will reach more folks*

In order to seek out new marketing opportunities, you need to consider who you will market to and what methods will best reach your customers. Begin by identifying the opportunity as usual. Then evaluate the opportunity by assessing the following three factors:

- ✔ **The external point of view, which is your consumer base:** Identify the consumer that you'll be marketing to. If you were to create a profile of this consumer, what would she look like? Also be sure that you can explain her buying patterns when it comes to your product.
- ✔ **The internal point of view, which comprises product features and product types:** Identify the product you'll market and the features you'll focus on in your marketing message to attract the consumer you've identified.
- ✔ **Marketing operations:** Identify the marketing methods and initiatives you'll use to reach this consumer, and then determine how you'll schedule those initiatives.



You use the information you gather to determine whether you've identified a marketing opportunity that has potential for success. You use it not only to evaluate the consumer and the product you're marketing, but also to determine the features the potential consumers will be interested in and the methods you'll use to share your marketing message with them. You can use all this information to decide whether the product opportunity carries merit and, if so, how you should move forward in seizing that opportunity.

For example, suppose I have a lawn care company. I want to reach a new market, so I've gone through the process to identify who I'm going after and what initiatives I will use. I have a client base of more than 1,000 customers who I'm either servicing now or I have serviced in the past. I've never entered my customers' information in a database, but if I did I could continually

market to them. So, I'm going to create a database to house customer information. This way I can stay in touch with my customers and remind them of my business, causing them to contact me for additional services. The opportunity I've identified is that by consistently marketing to my consumers, they'll be informed of additional services that I offer and be reminded of when their maintenance services are due.

I evaluate the opportunity by assessing the factors as follows:

- ✓ **External:** After I create my database, I'll send out postcards reminding my customers of the services that I offer during the winter — such as snow removal. Snow removal is an added service that many of my customers would enjoy if only they knew about it. I can use the database to continue to market to my existing consumer base and gain more recurring and additional business from them.
- ✓ **Internal:** I can monitor my marketing efforts internally by tracking who contacts me. Doing so allows me to determine whether the postcard method of marketing produces new business. If my postcard method works, I can use this to gauge what services my current consumer base is interested in. It will also help me in determining whether I should consider additional services.
- ✓ **Marketing operations:** By implementing a new database, I can determine peaks of growth in my business and evaluate whether any of my marketing initiatives are working better than others. I can use this information to gauge the peak times of specific services that I offer. I also can use this information in the future to market to new consumers during those peak times.

When identifying new opportunities in marketing, I can gauge not only where and to what my consumers are most likely to respond but also when my services are needed most. The benefit of this opportunity is that it keeps me in front of my current customers and enables me to remind them of additional services at the appropriate times. Even though I didn't enter into a new market, I did introduce my consumers to products or services I provide that they may not have been aware of. The goal is that this marketing opportunity will increase my business with my current customer base and will hopefully help with my referral business as well.

## *Determining Whether a New Opportunity Is Worth Pursuing*

After you discover a new opportunity that you may be able to tap into, you must assess whether there's a need for that specific product or service in your marketplace. It doesn't matter whether you're contemplating a new

product or a current product; when entering a new market, you must ensure that you're launching into an untapped market with little or no risk.



You need to consider attributes to each market segment that you're contemplating. Entering a new market sometimes can seem like a no-brainer, but it's still always a good idea to weigh the risks with the perceived benefits. In this section, I show you how to do just that.

## *Evaluating an opportunity's chance of success*

Before entering a new market, you need to assess the opportunity's chance of success. Luckily, you can follow a simple process to determine approximately how successful you'll be when entering a new market. You can measure the potential success of an opportunity and how solid the opportunity is by looking at the needs the opportunity meets and the problem the opportunity solves, and identifying those who would be interested in the solution that the opportunity provides. All three of these things are important when analyzing and measuring the strength and potential success that the opportunity presents.

To assess the opportunity, answer the following questions and then number them in order of importance. The importance is ranked according to which answers give the opportunity strength.

- ✓ What are the needs within the opportunity?
- ✓ What is the problem that creates the opportunity?
- ✓ What is the opportunity for you based on the needs and the problem?

After you answer the questions, weigh them by what's most important when evaluating the opportunity. If the problem is stronger than the need, the opportunity can still represent strength. That's because it could simply represent that consumers aren't aware of the need; they just know that they have a problem that they aren't sure how to solve. The ultimate goal in this exercise is to be able to walk away with a clear understanding of the viability of success when it comes to the opportunity you've selected.

## *Weighing the costs against the potential rewards*

Moving into untapped markets means that you must make some business evaluations to ensure that you've done your homework. Doing so ensures that you're prepared to take on the extra work and competition in order

to make the opportunity a success. After you determine whether your new market is a viable source for your business, you need to consider whether you can fulfill — and will benefit from fulfilling — the needs of that market. You need to evaluate the following:

- ✔ **Your competitive advantage:** Make sure that you have the competitive advantage in cost, growth, and price.
- ✔ **Internal company functions and procedures:** Make sure that your company house is in order. You need to be able to handle the new functions and procedures that entering this marketing will entail.
- ✔ **The characteristics of the new market you're targeting:** These characteristics may differ greatly from your current market, so make sure you take the time to evaluate and understand the characteristics within that new market.



These are business evaluations that you must make in order to determine whether you're ready to enter the market from a business perspective. The following sections tell you exactly what to evaluate. Use this information to tie up any loose ends and take note of what it is that you need to do to be prepared before entering the market; otherwise you may experience devastation from an operation standpoint.

### *Sizing up the competition you're working against*

If you can be first into an untapped market, opportunity can easily abound. On the other hand, if you find current competitors in the market you're considering, you'll have more issues to evaluate.



If you enter a new market unaware of the competition that will greet you, you're asking for sudden death of your business. Before entering a new market, evaluate the following:

- ✔ **Number of competitors:** If you find only a few competitors, it may more than rationalize your market entry. You may also find that it can be less expensive to steal existing consumers than to try a new approach.  
  
If, on the other hand, you find that a large pool of competitors exists in the market that you're entering, it's extremely important to have benefits that will stand out to consumers and persuade them to purchase from you. If they can't distinguish a difference between you and the competition, success won't come easy in this market. Differentiation is key when it comes to competition.
- ✔ **Number of products and services that will be required to effectively compete in the market:** If you're adding a new product to serve a need, remember that consumers love one-stop shopping and the value of full service — those features create loyalty with consumers. The same is true

when it comes to services: The more that consumers can do in one place, the more consumer loyalty you'll gain. Consider the retail stores that have now added groceries. They moved into this niche to create not only increased sales but also loyalty from the consumers that shop with them.

- ✔ **Competitors' marketing techniques:** It's not uncommon for new entrants into a current market to be greeted with competitive marketing tactics by businesses that are already established in the marketplace. For example, be aware of pricing levels when you enter the market and then continually monitor price changes. You may come across competitors who drop their prices in order to keep consumers away from the new competitor in the marketplace.
- ✔ **The amount of time it will take you to get into the new market:** Product life cycles represent a sequence of stages that a product follows, starting with the introduction of the product to the time that sales of the product begin to decline. It's important to understand timing because life cycles can sometimes last only a few months and then the demand for the product begins to decline. (Flip to Chapter 18 for more on product life cycles.)



If you've found an untapped market, it won't be long until one of your competitors also notices the opportunity. One more thing: Untapped markets generally don't go unnoticed. The fact is that some companies just won't take the risk to enter them, because when they do it can often take too long and someone else breaks into the market. So be sure to evaluate the time it will take you to enter the market, and then decide if it's soon enough to gain market share within the market.

### *Speculating about the effects on your business*

Just because you're entering a new market doesn't mean you're free to neglect the current bread and butter of your business. Be sure to find out how the new market will correspond with your current business resources. Then determine whether you can absorb the additional costs to effectively compete within the new market. You must be able to use current resources without putting your current business at risk.

When you're studying the effects that entering a new market would have on your current business, be sure to keep the following issues in mind:

- ✔ **Money:** When entering new markets, you need money in order to compete successfully. You need funds to develop, market, and launch your product or service. It isn't uncommon for businesses to enter new markets and promptly go bankrupt because they didn't keep their costs in mind. So be sure you know your costs before you even begin to count on the revenue the new market may produce.

Have a clear picture of each of the following costs to ensure that you can cover the extra weight until the revenue of the new market begins to trickle in:

- Product development costs
- Marketing costs
- Operations costs
- Customer service costs

✓ **Relative profitability:** You have to run the numbers in order to determine the profitability of your new venture. Determine whether your return on the investment of entering the new market will be greater than your initial cost.

It's proven to be less costly to grow profits from customers within an existing market than it is to pursue new customers in new markets.

✓ **Ease of distribution:** You need to consider whether your potential market will fit with your current distribution structure. If not, you may face additional costs. Consider whether you'll need a different location and how you'll deliver products to your new market.



### *Eyeing consumer tendencies within the market*

You must evaluate how your current consumer base will perceive your new market entry. You don't want to give up your current market share, so you must protect it. To begin, define and evaluate your existing consumer base and its perceptions on all strategic moves. Then you can protect market share by developing new products, improving your customer services and distribution effectiveness, and reducing prices.

It's also important to evaluate consumer loyalty. However, don't focus solely on consumers' loyalty to you. Consider also their loyalty to the competitors within the new market. Every market has a varying degree of consumer loyalty, often depending on the number and quality of the competitor products and services. So be sure to determine whether consumers within the market that you're evaluating have well-established relationships with current competitors. If you find that they do, create a plan to gain their loyalty.

