How to Prepare a Market Analysis
Content provided by The Edward Lowe Foundation

WHAT TO EXPECT

Before launching a new product or a new business, you need to conduct a thorough analysis to minimize your risk and enhance your likelihood of success. Remember, knowledge is power. For existing businesses, market research allows you to re-evaluate your client's changing needs, your competitor's marketing tactics and future needs of your industry. For new businesses, market research allows you to evaluate the viability of your potential market and analyze your competition before making any long-term decisions.

WHAT YOU SHOULD KNOW BEFORE GETTING STARTED

You will need to conduct a market research analysis before you develop a marketing program then again after you implement your plan, to determine if it is effective. Market research does not require that you have special skills. If you can ask questions, record information and take the time to understand what it means, then you, or an associate, can conduct market research. This Business Builder will address market research for both established and new businesses. If you have chosen to conduct your own market research study, there are several additional sources of assistance you may want to consult.

- Students could provide a cost-effective labor pool for conducting surveys. (You can contact the business department of colleges and universities in your area.) Students majoring in marketing may be required to conduct a market study for a class. Your business could fill that need.
- Pay attention to current buying trends. You can learn a great deal about the buying habits of your product/service by watching and talking to people who are currently buying it. Talk to friends, ask what products and services they wish were available.
- Evaluate the trends in your industry. Contact trade and professional associations in your field to determine the demand for the product or service you are considering or currently offering. Trade journals forecast trends and indicate new products and services before they hit the market. Trade shows within your industry will also keep you abreast of the industry, what is hot, what is not, pricing structures, etc.
QUESTIONS TO ASK REGARDING YOUR MARKET & INDUSTRY [top]

The first step to starting and/or growing a successful business is understanding in detail your market and industry. Whether you have an established business or are launching a new business, many questions need to be addressed. The remainder of this Business Builder will show you where to find the answers to these questions and tactics that you can use to create your own research.

Questions to ask yourself are:

- Is my market clearly identifiable?
- What is the size of the market?
- By what methods am I able to reach it?
- How fast is the market growing?
- Can the market be segmented?
- What types of people buy this product/service?
- Does the product/service have limited appeal based on geography?
- What do potential or existing customers like about my competitor's products/services?
- What makes my product/service unique relative to others in the marketplace?
- What are current buyers paying for comparable products/services?
- What factors are most important to buyers when selecting a product/service: price, quality, delivery time, etc.
- What is required to succeed in this market?
- How many competitors will I be competing against?
- Can the market support another player?
- How do my competitors reach the market?
- Are my competitors making any changes?
- Are they successful? If yes, why? If no, why not?
- How are my competitor's fees, operations and marketing structured?
- Is the industry growing?
- What are the current trends within the industry?
- Who are the leaders within the industry, and why are they successful?
- What type of marketing strategies are prevalent within the industry?
- Is the industry seasonal?
- Are there regulations that affect the industry?
- Is there customer loyalty within the industry?
- Is the industry sensitive to economic fluctuations? Are there technological changes happening or required in the industry?
- What are the financial characteristics of the industry?

CONDUCTING MARKET RESEARCH [top]

Market Research is only as valuable as the actual data that is collected
and the resources used to gather that data. Market researchers use the following types of data in their decision making process:

- **Primary Data**
  - Focus Groups
  - Surveys
  - Field observation

- **Secondary Data**
  - U.S. Government Sources
  - Trade and Industry Sources
  - General Business Sources

**Secondary Data**

Secondary data is information that is collected for other purposes than the current project. This information is available through external sources such as:

- The public library. This is the best place to start. Free information is in the reference department. Librarians LOVE to help researchers. Some reference materials you might want to look into:
  - Magazines and Reports. The Gale Encyclopedia of Associations will show you what trade associations serve the type of business you are in. The listings should include the address, phone number and a list of their publications.
  - *Sales and Marketing Management* magazine. This magazine publishes a yearly "Survey of Buying Power," containing information on every county in the United States and cities with a population more than 10,000. This information includes:
    1. Total population.
    2. Number of households: Most important for many businesses because products are bought to serve a household.
    3. Median cash income per household: How affluent a city or county is compared to its neighbors.
    4. Population percentage breakdown by income: Income levels are broken down into several categories, and for each amount it shows what percentage of households earn that much.
    5. Total retail sales: How much is spent by customers in retail stores.
    6. Total retail sales for each of the following businesses: Automotive, drug, food, furniture, general merchandise and household appliances.

- Competitors. Surprisingly, you can learn a lot by going right to your competition and requesting any information, advice or help
they might be able to offer. If you feel awkward approaching your competition directly, contact a business owner located farther away. For example, if you publish a magazine, you need to know what competitive publications' advertising rates, space usage, and circulations are, and their reader profiles. You cannot possibly compete unless you know what they are doing and not doing.

- The Federal and State Governments. The U.S. Department of Commerce has regional service offices that can provide you with pertinent information. The government also publishes reports on specific industries, markets and products.

- Trade Associations. There are trade associations that serve specific industries and are great sources of information.

- Business Publications. Local and national publications, newsletters and pamphlets exist for every industry imaginable.

- Media Representatives. This includes advertising space salespeople representing magazines, newspapers, radio stations and television stations. Many of their companies have extensive research departments; and the information is free. You can call to ask for a Media Kit.

- Local Chambers of Commerce. They collect information about the community and local businesses and offer most of their services for free.

- Local colleges or universities. The marketing departments of local colleges or universities will prove very helpful, as will their libraries. You can contact the business school or management department and ask for the person who directs the internship program. This is a good resource if you are planning to conduct any survey research.

- Vocational-Technical Institutes (Voc-Tech Schools). The instructors teach a variety of trade subjects and are a great source for information. Classes range from operating a supermarket to home decorating.

**U.S. Government Sources**

The U.S. government is an insatiable compiler of statistics from which you can reap benefits.

- **American Statistics Index (ASI)** — This is the single best source for locating government statistics and is published annually, with monthly supplements, by the Congressional Information Service of Bethesda, Md. The ASI provides an index to all the statistical publications of the U.S. government in one handy location. You will find the ASI particularly helpful, not only because it contains an index, but because its second volume, ASI ABSTRACTS,
briefly summarizes the actual reports listed in ASI. Thus, you can avoid wasting time trying to locate a document that may not contain information useful to you. It lists documents from the U.S. Census Bureau, CURRENT INDUSTRIAL REPORTS (CIR), the U.S. Bureau of Labor Statistics, and special studies by governmental agencies. Many libraries provide ASI access through the LexisNexis Statistical service.

• **U.S. Industry and Trade Outlook**, published annually by the Department of Commerce, provides a general economic outlook by forecasting growth rates for the coming year and reporting on production in the past year. You may find it a useful reference for anticipating trends in your industry.

• **Current Industrial Reports**. The U.S. Census Bureau publishes more than 100 Current Industrial Reports on 5,000 manufactured products, accounting for 40 percent of all goods manufactured in the United States. CIRs provide information on production, shipping, inventories, consumption, and the number of firms manufacturing each product.

• **Economic Censuses**. The Economic Census reports, published every five years by the U.S. Census Bureau, cover a variety of industries, such as retail trade, service, transportation and manufacturing. These publications report on monthly sales figures and trends, information on sales by geographic area, zip code and merchandise line. The Census Bureau publishes the Annual Survey of Manufactures in the years between Economic Censuses.

• **CENDATA**, an online database offering County Business Patterns, a source of industry information analyzed by geography is useful for evaluating the performance and trends of your industry in your target location. The printed version of County Business Patterns includes listings for each industry having more than 50 employees in an area, and a computerized version has listings of every North American Industry Classification System (NAICS) category with at least one employee.

Most federal government publications can be examined at public and college libraries that serve as depositories, or ordered from the U.S. National Technical Information Service and Government Printing Office.

To gain access to government statistics files, visit the Contacting the Census Bureau Web site.

In addition to the agencies listed above, find your state and local agencies that are likely to have useful statistics for your region and industry.
State and Local Government on the Net Web site. State sales tax receipt statistics are a good indicator of the health of your local economy. Local planning department information regarding building permits indicates population growth or stagnation.

**Trade and Industry Sources**

If you have a small business, you can locate many of the trade references you need in the *Small Business Sourcebook*, published by Gale Research of Detroit, Mich. Although the *Small Business Sourcebook* is limited to a relatively few types of businesses with a strong orientation towards retail trade, if your business happens to be included, you'll find substantial information well-organized for easy accessibility. The book lists trade publications, industry associations, trade shows and conventions, and venture capital firms and consultants active in each business.

For bigger businesses or those not listed in the *Small Business Sourcebook*, try Gale Research's *Encyclopedia Of Business Information Book*. Arranged by industry, this guide lists trade associations and major sources of statistical information, including databases, directories, and major publications in the field. If you still need help finding information on your industry's sources, consult Gale's *Encyclopedia Of Associations* or the *National Trade And Professional Associations Of The United States*, published by Columbia Books of Washington, D.C. These two resources offer information on more than 30,000 trade associations and also list the major publications of such associations.

**General Business Sources**

The following publications discussed in this section are available at most public and college libraries that have business resources. Ask a librarian to help you find them, as many are likely to be online and not listed in the library catalog.

**Statistics sources**

- **Standard & Poor's Industry Surveys.** While designed for investors, these surveys can be a source of insight about your overall industry and major competitors. The "Basic Analysis" section gives overviews of trends and issues in the industry. The remaining sections define some basic industry terms, report the latest revenues and earnings of more than 1,000 companies, and occasionally list major reference books and trade associations. When using *S&P Industry Surveys*, look for the broad industry category under which your business falls, for instance, "Retail" or "Textiles" for an apparel or home furnishings store.

- **American Marketplace: Demographics and Spending Patterns.** New Strategist Publications produce these listings of characteristics of U.S. Consumers.
Sourcebook of County Demographics and Sourcebook of Zip Code Demographics. ESRI publishes these volumes that identify dozens of local potential-customer characteristics annually.

Demographics USA, City and County editions. Trade Dimensions International publishes these volumes that are similar in concept but have little overlap with the Sourcebooks from ESRI.

Financial ratios that can be used to compare your company's performance with competitors' performance are published in Almanac of Business and Industrial Financial Ratios by Leo Troy, the Dun & Bradstreet Industry Norms and Key Business Ratios, and RMA Annual Statement Studies.

Indexes

Business Periodicals Abstracts from H.W. Wilson Co., ABI/Inform from UMI, Business Source Elite and Premier from EBSCOhost, and General Business File ASAP from Gale/Infotrac are indexes to articles in major business publications that your library may make available. Ask a librarian how to use the indexes from home or at work.

For non-governmental statistics, refer to the Statistical Reference Index (SRI), published by Congressional Information Service of Bethesda, Md. SRI index reports statistical studies from major organizations and trade associations. A second volume, SRI Abstracts, provides brief summaries of the information included in these reports.

One often overlooked source of business information is the Yellow Pages of your local telephone directory. The Yellow Pages can give you insight about the nature and scope of your local competition and potential suppliers.

Advantages to using secondary data include saving time and money and minimized duplication of work. Disadvantages are that the data may not apply to your situation or that the data are outdated. As long as the advantages of using secondary data outweigh the disadvantages, go for it. Marketing research in any form reduces the known and unknowns. Therefore, reducing risks, it empowers management to make new choices and alternatives.

Primary Data

Primary data is information you will collect yourself to analyze a specific situation. The data can be either:

- Subjective Data, or
- Measurable Data

Subjective Data
Subjective data is useful and elemental, but cannot be statistically analyzed. One source of subjective data is:

- **Focus Groups or Group Interviews:** These enable you to interview several people for their opinions and reactions at one time. This method is used by many companies when developing new products, marketing strategies or business procedures. It provides instant feedback, and usually one participant opinion leads to another from which you can derive marketing ideas. Organize your own group by approaching a local church, civic organization or school, or you can gather several carefully selected friends. Local groups may charge a small fee. To get the most from a group interview, try these guidelines:
  - Be sure to have a strong moderator. The moderator will ask the questions and keep the group from straying off the subject.
  - Encourage the group to be open and honest with their opinions.
  - Do not let anyone slip into the background by being silent. Encourage everyone to speak. They all represent your market.
  - Do not provide any of your own opinions or prejudices as they may lead to false feedback.
  - Use visual aids to initiate helpful conversation. Write down opinions on a blackboard or flip chart.
  - Appoint a person to take notes.
  - Get a second or third group opinion. One is not enough.

**Measurable Data**

Measurable data is more reliable because statistical analysis can be done on it. Measurable sources include the following:

- **Surveys:** Surveys are a large part of market research and are one of the best ways to gather information from individuals or businesses on any specific subject. Surveys require good planning and a proper sequence of questions. Three types of survey samples are discussed below: Personal Interview, Telephone Interview and Mail Interview

  - **Personal Interview:**
    - The most widely used method is the personal interview. Conducting market research through this venue will provide you with the most accurate information because you will be speaking directly with the consumers. However, because you will most likely interview people at multiple times and locations, this is the most expensive and time-consuming route to take.

    Several advantages to choosing the personal interview
technique include:

- You are able to ask detailed questions.
- You are able to ask follow-up questions.
- You are able to use visual aids or samples.

The personal interview can either be conducted by you or someone you hire and is on a one-to-one basis. Your survey "sample," or group of people you choose to survey, can either be chosen randomly (for example in a shopping mall) or specifically (for example buying a specific product). It is to your advantage to pick consumers who best resemble the customers you will serve. Keep in mind: If you are conducting research for an outdoor recreational store, don't interview only men. Women are equally active in outdoor sports and should be included in your interviews as well.

- Telephone Interview:
  One of the most convenient methods for market research is the telephone interview. This can be done in your home and around your schedule. However, since you normally won't know whom you are calling, your sample will be very random. Keep the questionnaire brief and grab their attention immediately, as people tend to become very impatient when kept on the phone for something that doesn't benefit them directly. Remember that they are doing you a favor and they know it. For example: "In order for us to provide you with a product that best fits your needs, we would like you to take just a few moments of your time to ask some questions regarding your toothpaste."

- Mail Interview:
  The mail interview is the perfect way of reaching consumers a distance away who are hard to reach by phone or in person. In order to reach the right people, you will need an appropriate list of addresses. Mailing lists can be purchased from research agencies and range in cost from $50 to $200 per thousand names. Don't forget to include a return envelope with postage.

One disadvantage is that direct mail doesn't receive a high response rate. On average, you can expect between .5 percent to 3 percent (that's 3 responses from 100 questionnaires) of the people to whom you sent questionnaires to respond. There is also the option to follow up with a telephone interview, but this can be time consuming. If expense isn't much of an issue, but time is, it may be well worth your while to look into market research firms to conduct the interviews for you. By comparison, you can expect the telephone interview to give you a 60 percent response and the
A personal interview should give you a response of 90 percent. Combined, they will give you the most accurate and complete information.

**WHO ARE THE "RIGHT" PEOPLE?**

Asking the right people the right questions and being able to decipher the information will enable you to use it to your best advantage to see direct and positive results in your business. However, keep in mind that time is the key investment.

The "right" people are the ones with whom you will be doing business. You need to gather everything you know about the people who will buy your products/services.

Include the following in your pursuit of customer information:

- Buying Habits:
- Income:
- Special Interests:
- Occupation:
- Physical Handicaps:
- Sex:
- Own or Rent a Home:
- Age:
- Eating Habits:
- Race:
- Do-It-Yourself Type:
- Education:
- Leisure Time Activities:
- Area of Residence:
- Vacation Activities:
- Hobbies:
- Age and Type of Car:
- Skills:
- Household Pets:
- Religion:
- Marital Status:
- Number of Children:
- Age of Home:
- Health:

These are just a few examples for your "customer profile;" however, you should customize the list of characteristics you expect your potential customers to have.

Next, you need to find these customers, and how you choose to locate them is up to you. You could sit on a street bench and look for obvious match-ups. You could stand near a competitor's store and interview
customers. You could purchase mailing lists with your customers' profiles and conduct a mail survey. There are many possibilities.

Once you identify the group of customers that matches your profile, they become your "sample." This is a sample of the general public who are the type of people with whom you will most likely do business. Keep in mind that the smaller your sample the greater your margin of error will be. Watch out for the sample that is too small, or carelessly selected. This could provide you with incorrect information.

DESIGNING A QUESTIONNAIRE

It is important to ask the right questions to get the information that will benefit you. Determine the value of each question by judging how you would use the results. This will help you avoid wasting time on questions that prove useless and inadequate. There are several rules to follow when designing your questionnaire to suit your needs:

- **Always keep your survey concise and understandable.** Be certain to make your questions comprehensible by various types of people. Long, drawn-out questions will only lead to confusion. Confusing questions breed confusing answers. Get to the point immediately. For example, ask, "When you purchase socks, what brand do you buy?"

- **Be direct when asking questions about your subject.** If you want to know why a customer chose your store to shop in, don't ask, "Why didn't you go to the XYZ Shop?" You might find out why they dislike the other store when you are looking for what they like about your store. This could lead to false assumptions.

- **Make sure your questions can be answered easily.** You don't want to stump them and get an "I don't know" answer. Remember to follow up YES and NO answers with a WHY?

- **Avoid offending anyone.** People become sensitive when asked questions about income, age, occupation, race and sex. Only include these questions if they are absolutely relevant.

- **Don't lie about the intention of the questionnaire.** Tell them it's a survey for the paint store you're thinking of opening. Otherwise, you won't get the customers real opinions about a new paint store.

- **Don't answer the questions for them.** Prompting people for answers only provides you with your own answers.

- **Provide enough time** for the person to give you an answer, and let them finish what they are saying.

- **Read back to them what they answered** to be sure of accuracy. You want to understand everything they say.

- **Don't react negatively to any answers.** If they upset you, don't
show it. If they never heard of your product, then they haven't. This is why you are doing research.

- **Never forget to be courteous.** Remember they are doing you a favor.

**EXAMPLES OF QUESTIONNAIRES**

The following are some examples of various forms of questionnaires:

The first questionnaire is for a select group, the customers of Speedy Photo. The owner conducted the survey during a one-week period, reaching both weekday and weekend customers.

**SPEEDY PHOTO SURVEY**

In order for us to serve our customers better, we would like to find out what you think of us. Please take a few minutes to answer the following questions while your photographs are being printed. Your honest opinions, comments and suggestions are extremely important to us.

Thank you,
SPEEDY PHOTO

1. Do you live / work in the area? (Circle one or both)
   2. Why did you choose SPEEDY PHOTO? (Circle all that apply)
      Close to home
      Close to work
      Convenient
      Good Service
      Quality
      Full-service photography shop
      Other

3. How did you learn about us? (Circle one)
   - Newspaper
   - Flyer/coupon
   - Passing by
   - Recommended by someone
   - Other

4. How frequently do you have film printed? (Please estimate)
   ______ Times per month
   ______ Other
5. Which aspect of our photography shop do you think most needs improvement?

6. Our operating hours are from 8 a.m. to 5:30 p.m. weekdays and Saturdays from 9:30 a.m. to 6 p.m. We are closed on Sundays and legal holidays. What changes in our operating hours would be better for you?

7. Age: (Circle one)
   Under 25
   26-39
   40-59
   Over 60

   Comments:

This survey was done by a businessman interested in opening public storage buildings. Before he committed any time and money to the project, he sent a questionnaire to consumers within a 15-mile radius of the proposed site.

**PUBLIC STORAGE QUESTIONNAIRE**

1. Are you presently renting any public storage space?
   ____ YES
   ____ NO

   If NO, go to question 2.
   If YES, continue with 1a.

1a. Where are you currently renting storage space (name and address):

1b. How many times a month do you visit your storage space?
   __________

1c. Is your storage space heated?
   ____ YES
   ____ NO

1d. Approximately how much space are you renting?
   ________ square feet
1e. Do you think you'll need additional space in the future?
   ____ YES
   ____ NO

1f. Are there any changes or improvements you would like to see in your present storage space arrangement?
   If YES, what improvements would you like to see?

2. Are you planning on using any public storage space?
   ____ YES
   ____ NO

   If NO, end interview.
   If YES, or DON'T KNOW continue.

2a. If you are planning to rent public storage space or may rent such space, how far of a distance are you willing to travel to use your space?
   _______ miles

2b. Approximately what size storage space would you need?
   _______ square feet

2c. How much monthly rent would you be willing to pay?
   $________ per square foot/month

2d. Would you require heat for your space?

NAME:
TITLE:
ADDRESS:

Thank you very much for your cooperation.

Another questionnaire was developed by a woman who was interested in selling southwestern jewelry made by native Indians.

SOUTHWESTERN JEWELRY QUESTIONNAIRE

1. Have you ever purchased or received southwestern jewelry?
   ____ YES
   ____ NO

2. Have you ever purchased or received southwestern jewelry made by native Indians?
   ____ YES
If Yes, what type of jewelry?

_____ Necklace
_____ Ring
_____ Bracelet
_____ Earrings
_____ Other

3. Would you be interested in purchasing the above mentioned jewelry made by native Indians?

_____ YES
_____ NO

4. Do you know where to shop for such jewelry?

_____ YES
_____ NO

5. When buying jewelry, what do you value the most? On a scale of 1 through 5, list in order according to your preference. A number one represents your most valued choice.

_____ Craftsmanship
_____ Cost
_____ Uniqueness
_____ Other

The last questionnaire was developed by a woman who wanted to open a fitness center and offer one-on-one training.

FITNESS CENTER QUESTIONNAIRE

1. Do you exercise?

_____ YES
_____ NO

If NO, please answer questions in Part A.
If YES, please answer questions in Part B.

A. Please check reasons for not exercising:

_____ Lack of time
_____ Lack of motivation
_____ Cost
No convenient fitness centers
Medical reasons

B. Check the type of exercise you do:
    Aerobic
    Nautilus
    Free weights
    Running
    Swimming
    Other. Please specify _________________

Check your age group

    Under 25
    26-35
    Over 35

Where do you normally exercise?

    at home
    fitness center

How far do you live from (town of proposed center)?

    in town
    10-15 miles
    out of town

Do you think your town needs a fitness center?

    YES
    NO

Would you be interested in one-on-one training?

    YES
    NO

Please note any suggestions or comments you might have.

In each of these cases, the business owners gain valuable information to help them make major decisions about their businesses. Remember that if the results of the survey aren't very positive, you need to find out WHY. The questionnaire is used as a guide. It doesn't mean you can't go into business.

**ALTERNATIVES TO SURVEYS**
Questionnaires aren't the only forms of market research. There are other methods you can pursue yourself. Play the role of customer in your competitor's store. Visit them different days at various times and fill out an analysis form. This will give you valuable information on how you can improve your own business.

Analyze the license plates of your competitors' customers. How many of them will find it more convenient to shop at your store?

If you offer a coupon with print advertising, code it so you know where it came from when the customer redeems it. When the offer is over, analyze which publication had more customer response. You could even write the customer's phone number on the coupon to narrow the research down more.

You can do the same with broadcast advertising. When you hear commercials that say, "Tell them you heard it on WXYZ," they are doing market research. Have a different code for each station and keep track of the customer response. Don't forget to check the profile of their average listener to find out about your clientele.

One important note: Your findings may not be without error. There could have been flaws in your survey or the sample of people you selected. Don't forget that market research is also an effective venue to keep up with the trends, attitudes and preferences of your customers.

RESOURCES [top]

Books

Research guides


The Handbook for Focus Group Research, 2nd ed. by Thomas L. Greenbaum. (Sage, 1998).


Data sources

Editor & Publisher Market Guide. (Editor and Publisher Company, annual). Descriptions of infrastructure and markets in cities large enough to have newspapers.

Encyclopedia of Business Information Sources. (Gale Research, annual). Directory to sources of published data on specific industries.

Government Research Directory. (Gale Research, annual). Where to find
government information resources.

**Magazine Directories**

*Business Publication Advertising Service.* (Standard Rate and Data Service, monthly). The SRDS index includes trade journals that often provide industry situation reports.

*Bacon's Magazine Directory.* (Bacon's Information, annual).

**Web Sites**

Basic Market Research. KnowThis.com Marketing Virtual Library.


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**About This Item**

**Category:** Market Research  
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The Edward Lowe Foundation was created by Ed and Darlene Lowe in 1985 to "champion the entrepreneurial spirit." Headquartered near Cassopolis, Michigan, the foundation works with entrepreneur support organizations nationwide to encourage peer learning among second-stage business owners. Before his death in 1995, Ed Lowe, the creator of Kitty Litter, had become an advocate for entrepreneurship as the key to the success of the free-enterprise system.

Contact: 800-232-LOWE(5693) or edwardlowe.org