Chapter 4

Market Research Process

Entrepreneurs conduct extensive market research early in the process of launching a new venture. Defining target markets, segmenting customers, and creating a competitive analysis all position new businesses for success.

Objectives

After reading this chapter, you will be able to:

- ☑ Identify target markets
- ☑ Define and demonstrate the marketing research process
- ☑ Conduct effective market research and analyze results

The Function of Marketing

Marketing is the process or technique of promoting, selling, and distributing a product or service. The function of marketing in an entrepreneurial venture is an important one—it defines customers' wants and needs and delivers goods and services to fulfill those needs.

When entrepreneurs launch new ventures, they place careful thought, research, and evidence into constructing a marketing plan to best execute the marketing function. If marketing fails to accurately project consumer wants and needs, other business functions such as production, management, and finance will also suffer. For example, if an entrepreneur incorrectly assumes consumers would be interested in a ridesharing app for ecofriendly vehicles, money could be lost in the production and management of the technology.

The function of marketing is integral to the success of an entrepreneurial venture. Entrepreneurs that invest time and resources into market research at the onset of a business are better prepared to create products that will lead to profitability.

Marketing Concept

Marketing is what sets companies apart from one another and allows them to compete. A customer's choice to buy one product over another, for example, is influenced by several marketing factors. The shape and material of the product, the wording on the label, and shelf positioning are all deliberate marketing decisions designed to influence purchases.

Learning how and why companies make marketing choices gives entrepreneurs a better understanding of the **marketing concept**, a method of selling that involves analyzing customer wants and needs and aiming to fulfill them better than competitors. There are three elements involved in the marketing concept, as shown in *Figure 4.1*: customer needs, company goals, and profits.

1. **Customer needs**

   Meeting customers' needs and wants involves extensive research to produce products that are in demand within an economy.

2. **Company goals**

   Aligning the business functions to customer needs means every action a company performs should match its goal of satisfying customers.

3. **Profits**

   A company's revenue minus expenses represents its profits. Companies that build long-term returning customers create a relationship conducive to increased profits.

When companies have a clear understanding of the objectives outlined in the marketing concept, they are better positioned to achieve increased market share. **Market share** is the percentage of the market for a product or service that a company supplies. Market share determines how successful a business is and is sometimes described using a comparison to a pie. Getting a "bigger piece of the pie" or "growing the pie" means a company has increased its market share.

FIGURE 4.1

The Three Elements in the Marketing Concept

Customer Needs

Marketing Concept

Profits

Company Goals
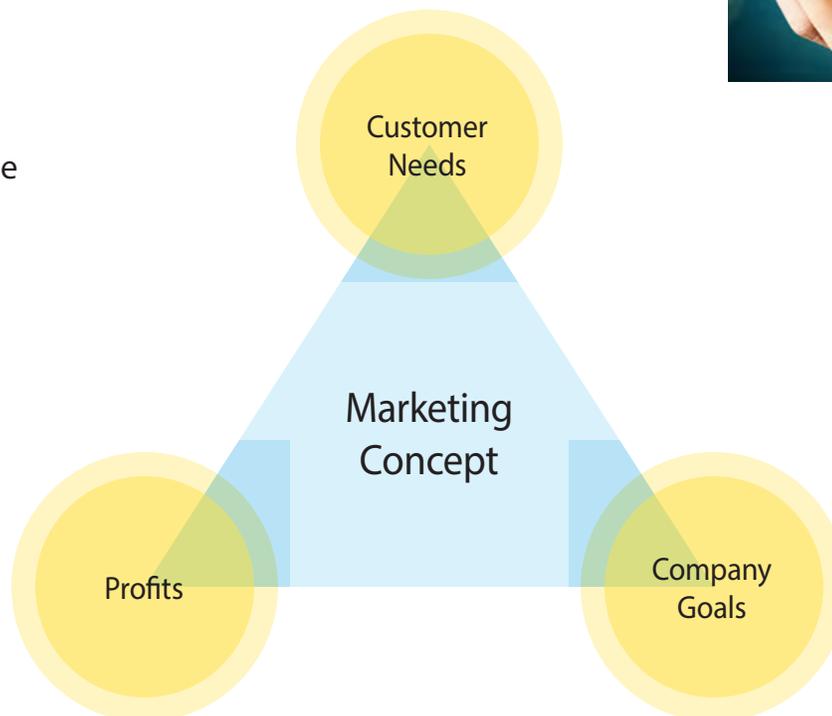
Get Involved

SCORE

SCORE is a nonprofit association created to help small businesses launch and grow. Resources include free mentoring, business tools and templates, and inexpensive or free local workshops on business development. SCORE also provides podcasts, blog posts, articles, and virtual guides to nurture lifelong learning for entrepreneurs. Visit www.score.org to learn more about the benefits of entrepreneurial mentorship.

Target Markets

Before businesses strategize marketing efforts, they identify a **target market**, which is the specific group of people they will sell to. Target markets can be grouped by age, behavior, geographic location, or other factors. An intimate understanding of target markets is important because listing the specific consumers, organizations, or businesses that a company will target is a critical first step in orchestrating a sound marketing plan.

Research is conducted, compiled, and analyzed to define customer wants and needs. The resulting research helps companies divide potential markets into smaller groups based on specific characteristics and demographics. Organizations then analyze the buying decisions of consumers in their respective segments and determine how best to persuade and influence purchasing decisions. For example, a company selling surfboards and apparel is likely to narrow its target market to customers living near the ocean. Market research may also reveal that consumers tend to buy new equipment at the start of the summer season. Armed with this information, an entrepreneur can make informed choices about how best to spend his or her marketing dollars.

Market Identification

The concept of a market refers to a place where buyers and sellers exchange goods and services, but it also refers to a group of customers who might purchase a product. The method of choosing a target market is called **market identification**.

The goal of market identification is to discover where, how, and with whom a business will be most profitable when selling. Businesses consider the following questions when assessing potential target markets.

What problem does the product solve?

Products satisfy wants and needs by solving a problem for customers. Businesses use these problems to guide their thinking in identifying a target market.

Where is the demand for the product?

Understanding geographic areas in high demand of particular products helps businesses assess marketing strategies and distribution needs.

Who is demanding the product?

A closer examination of the consumers demanding a product can provide indication of characteristics unique to a target market.

How does competition solve customer problems?

Businesses that engage in a competitive analysis by reviewing strengths, weaknesses, opportunities, and threats are better positioned for market identification.

Market Segmentation

After market identification is defined, **market segmentation** is used to narrow a market into small, specific groups. The process of market segmentation divides a market into categories based on common characteristics. Marketers analyze census data, consumer trends, and numerous other factors to define market segments.

Many months of analytical research are typically invested into the preparation of market segmentation. Statistical data about specific groups is gathered and evaluated to identify how best to segment the target market. Market segmentation examines four key variables: geographic, demographic, psychographic, and behavioral characteristics.

Geographic Segmentation

Businesses study the unique needs and wants of people in geographic areas to create and market products to meet consumer demands. This is known as **geographic segmentation**, and it helps entrepreneurs divide a target market based on customer location. A target market can be segmented by physical locations, such as region, state, or city, but also by climate and population size.

Demographic Segmentation

Housing, age, education, ethnicity, gender, occupation, marital status, and other characteristics are used in **demographic segmentation**, the division of a market using statistical data. Businesses conduct market research, study personal statistics, and review other forms of analytical information to learn about consumers within a target market. However, demographic data only gets businesses so far—they must also understand what the information means. Businesses use statistical information as part of the "whole picture" of a customer to effectively understand purchasing patterns.

Psychographic Segmentation

Marketers design messages to resonate with a target market by understanding activities consumers enjoy, interests they hold, and societal views that drive decision-making. **Psychographic segmentation**, or the lifestyle analysis of customer values, attitudes, and preferences, assists marketers in predicting psychological influences and purchasing priorities.

Entrepreneurs rely on surveys and interviews to collect psychographic data and study customer attitudes. Research can be interpreted to observe patterns and trends that may potentially influence marketing strategies.

Did You Know?

99.7 percent of businesses in the United States are small businesses. As of 2010, more than three-quarters of those businesses were non-employers, meaning the only person they employed was the owner.

Source: sba.gov

Behavioral Segmentation

Consumer spending habits often guide businesses in adapting their marketing strategies to meet the preferences of a target market. **Behavioral segmentation** is used to identify purchasing behavioral patterns of customers.

Two important factors of behavioral segmentation include researching loyalty and usage rate. Loyal customers often comprise a large portion of a business's income because they continually return to make purchases. Entrepreneurs analyze characteristics of loyal customers to understand their motivations. Entrepreneurs also examine usage rate when studying behavioral tendencies to identify how often customers use goods and services.

Customer Profile

Once a business determines how it will segment its target market, it creates a **customer profile** for each segment, which is a report portraying details about a typical customer. A customer profile, shown in *Figure 4.2*, captures geographic, demographic, psychographic, and behavioral characteristics.

FIGURE 4.2

Customer Profile: Commuter

Demographic:

Age	25–34
Gender	Female
Ethnicity	Any
Family Size	Married
Income Level	$40,000–$60,000
Occupation	Technology industry

Psychographic:

Interests	Electronics, cellphones
Activities	Shopping, dining out

Geographic Location: Boston, MA
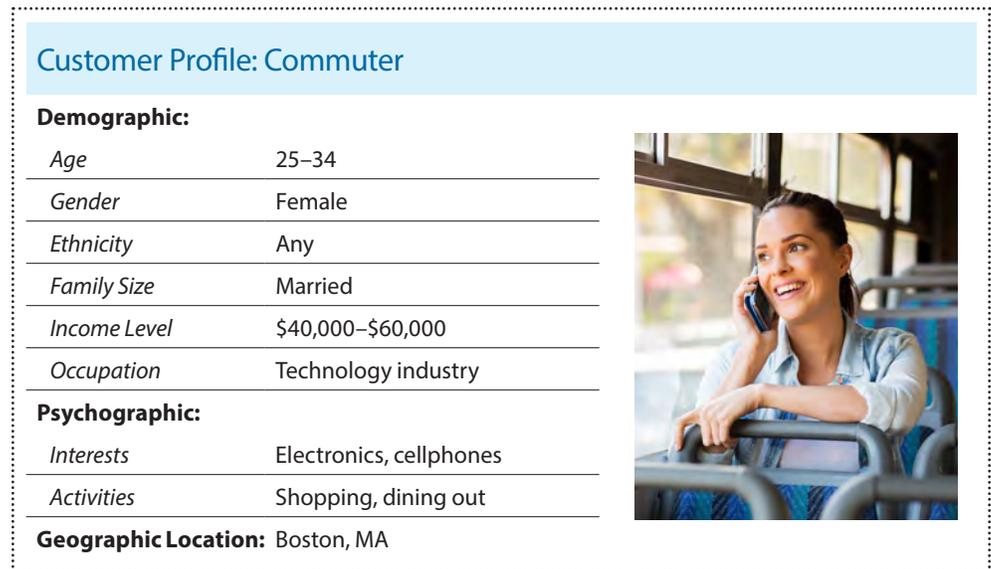
Market Research

Market research—the process of gathering qualitative and quantitative data about consumers' preferences—is an essential business practice, both pre-venture and post-launch. Market research includes actions as simple as analyzing a current customer list or as complex as using online database tools, such as ReferenceUSA, to determine parameters of a target market.

There are many benefits to market research. Conducting market research helps entrepreneurs to challenge, validate, and sometimes adjust their assumptions. Research removes emotion from business decisions and enables entrepreneurs to determine whether or not their business ideas are justified.

Did You Know?

Small business can be a misleading term. A small business, as defined by the US Small Business Administration, the leading resource of business data, is classified as any independent business with less than 500 employees and under $20 million in revenue.

Source: sba.gov

Despite the numerous advantages of market research, it does have limitations. One limitation is that market research cannot be substituted for decision-making. It is also not a predictor of behavior. To put it simply, people change and, therefore, behavioral forecasts cannot be considered concrete. Coca-Cola experienced this first-hand in 1985. The company evaluated a new formula for its Coke product through market test groups. In the test groups, 68 percent of people surveyed liked the new formula over the old one. However, when Coca-Cola launched the product, it was met with disappointing response from the national market. This led Coca-Cola to re-introduce the old formula as Coke Classic, to get its share of the market back.

It is important to remember that data is also only as good as the people who collect it. For instance, a business owner who has a very limited understanding of financial statements may not accurately interpret financial forecasts for a particular product being sold. Poorly trained analysts may also inadvertently misinterpret data.

Finally, when conducting market research, it is important to note that there is a time lag between when research is conducted and when it is released to the public. It is not uncommon to see data that is a few years old being used for current business analysis. It takes time to collect and interpret data when dealing with large studies, such as census data or a collection of export data from multiple countries. Therefore, it is in an entrepreneur's best interests to consider the date and relevancy of data before applying it to his or her market research.

Making Business Decisions

Market research is sometimes an overlooked aspect in the process of starting a business for new entrepreneurs. It is not uncommon for new entrepreneurs to begin with an idea borne out of their own needs and go directly to launching the venture without taking the time to research potential markets. Entrepreneurs may secure a location and use their own savings to get started, only to discover six months into operation a market for their product or service doesn't exist.

The role research plays in identifying a market and making business decisions is a critical one. Market research facilitates sound decision-making by helping to validate, challenge, or adjust assumptions. Market research should be conducted not only prior to opening a business, but also every six months to ensure a business is still projecting the best ways to maximize profitability.

Marketing Information Management

Marketing information management (MIM), also known as market research, is essential to effective marketing. Gathering information about products; conducting research into consumer wants, needs, and preferences; and analyzing competitors are all components of MIM that have a direct impact on other functions of marketing.

However, in the current digital landscape, entrepreneurs must know the difference between factual data and misinformation. Part of discerning data is understanding the difference between primary and secondary sources.

Primary and Secondary Data

Primary data provides firsthand evidence about a topic and includes experiments, observations, and interviews, among others. Secondary data does not represent firsthand experience with the topic at hand, but rather interprets and analyzes primary data.

Various research tools are used for gathering information about markets, market trends, and business and consumer needs and wants. The most common primary data research tools include the following.

Surveys

Surveys can be conducted for a variety of purposes. They can help entrepreneurs to determine customer satisfaction, understand consumer likes and dislikes, get product feedback, and measure brand awareness. Surveys are easy to create and there are many software platforms that provide free or low-cost templates to assist in creation.

Focus Groups

Focus groups are a popular method used by major corporations. Focus groups bring a chosen set of people together in a room to participate in discussion. Television networks often employ this strategy. People are invited to a free showing of a movie or a television pilot, in return for answering a few questions at the end of the show. This method has been used for years to help determine which shows make it to television and which ones end up on the cutting room floor. Focus groups are very structured and are used to measure consumer perception.

In-person Interviews

In-person interviews are also called ethnographic studies. These entail an in-depth look at a current customer. The benefit of an in-person interview is that it offers more flexibility than focus groups and generates meaningful one-on-one conversation, allowing entrepreneurs to explore questions that might not have been on their original focus group list.

Observation

This tool requires live observation of consumers in the natural environment. For example, observation is common with usability testing in which a researcher observes how a consumer interacts with a product. Another common example is employing mystery shoppers who are paid to shop at a store in exchange for reporting all aspects of their experience. A national grocery chain, for instance, may utilize mystery shoppers to determine whether employees follow company branding standards by saying "Thank you for shopping with us" at the end of every transaction.

Field Trials

Field trials involve quantitative results and are a way to test hypotheses. For instance, if an entrepreneur is unsure which website homepage is most effective, he or she could create an experiment in which both websites are shared with customers and results are tracked. The resulting data will provide direction for the entrepreneur on which website is most effective.

Secondary data is also important for gathering information about markets, market trends, and business and consumer needs and wants. Secondary data, such as business statistics and industry data from sources like the US Census Bureau, often provide key information regarding markets and market trends.

Reports from organizations such as ReferenceUSA and IBISWorld can provide industry growth trends, market conditions, demographic information for a target market, and much more. While these databases can prove expensive for new entrepreneurs, they are often available for free at local libraries, universities, and business assistance organizations such as America's Small Business Development Centers.

Social platforms are also an important form of secondary data and should not be overlooked because they help to identify consumer behavior and trends. For instance, Twitter tracks the top 10 trends in every major metropolitan area on a daily basis. Entrepreneurs can follow trends by monitoring hashtags on social platforms. Social networks also provide insight into customer satisfaction ratings by monitoring what people are saying about a company on business social pages.

Technology

Entrepreneurs use appropriate technology to obtain information about industries, customers, and competition. Technology for gathering information about industries can include websites, printed industry publications, or industry information databases, such as the US SBA, the US Census, IBISWorld, ReferenceUSA, and Bizminer. These databases can give insight into historical data on each industry, as well as forecasts on market demand.

To obtain information about customers, entrepreneurs may utilize technology such as customer relationship management (CRM) tools. CRM is a software platform that includes a broad set of applications designed to help businesses manage customer data. Tools can enable technology such as live chat, feedback forms and follow up surveys, recommendation and ratings tools, email surveys for new customers, and monitoring of social channels.

To obtain information about competition, entrepreneurs can utilize a variety of appropriate technology. While many business owners rely on basic internet searches to acquire competitor information, more advanced technology can simplify data collection. For example, entrepreneurs can set Google Alerts on their competitors to receive up-to-date notifications on competitor business activities. Monitoring competitor social media activity can help entrepreneurs gauge customer sentiment, brand loyalty, and customer needs, wants, and satisfaction.

Business Ties to Technology

Marketers collect data about people who visit their websites. Using web analytic tools, marketers measure web traffic by the number and time of clicks and geographic data. All of this is done automatically as soon as a visitor clicks a link to a site. Entrepreneurs use this information as a form of market research and to tailor messages to target audiences. Tools such as Google Analytics and Microsoft Power BI give marketers information about which elements of a site people are most responsive to.

Unit 2 · Chapter 4   **Essentials of Entrepreneurship**

Market Research Process

The market research process consists of a series of steps used to identify industry trends, identify potential markets, analyze demand, forecast sales, and make other business decisions. To be most effective, the market research process should be implemented in the following order:

1. **Identify the Problem**

    This is perhaps the most important step in the market research process. Incorrectly identifying the problem or objective of the research can result in misleading data that fails to solve the problem.

2. **Determine a Research Approach**

    Once a problem has been accurately identified, the next step is to determine the best approach for solving the problem. There are many methods to choose from, such as surveys, field trials, secondary data, consumer interviews, and more. Entrepreneurs often ask themselves a series of questions in this step, such as the following:

    - What customers can provide me with accurate data?
    - How will I find the right customers?
    - How many participants do I need for a representative sample?
    - Where and how will the research be conducted?

3. **Design the Research Instrument**

    Once a research approach is determined, entrepreneurs can then create any necessary research instruments. For instance, if an entrepreneur decides that surveying consumers is the best approach, he or she must then design the survey. If observation or a field trial will be used in a controlled setting, an entrepreneur must set up the environment and determine which consumers will be invited to participate. Follow-up questions must also be formulated. At this point in the process, it is advantageous to test the research instrument on a small sample of people to ensure it is accomplishing the intended purpose.

4. **Collect Data**

    This is the step in which the research instrument is put into action by conducting interviews, sending out surveys, or performing field trials. Entrepreneurs should collect enough data so that they can garner real results from it to provide strategic direction in decision-making.

5. **Analyze Results**

    In this step, entrepreneurs collect the data into a format or software platform that works best for their business. Data collection can be performed with a simple spreadsheet or organized into a robust database. Once all data has been

entered, entrepreneurs can segment it to analyze results. It is often helpful in this stage to utilize visual elements, such as graphs and charts, to more easily identify trends from the research.

6. Communicate Results

When communicating results to a business team, entrepreneurs are best served to deliver information into digestible pieces. For example, it may make sense to focus on the major trends rather than to note every trend that was identified. During this final stage, entrepreneurs identify how the marketing research either validated or challenged initial findings and create recommendations for moving forward based on the market research results.

The marketing research process is used to identify industry trends, potential markets, analyze demand, forecast sales, and make other business decisions, but the market research used for each of those categories varies. Regardless, the market research process should be followed when examining each of these areas—entrepreneurs will want to start by identifying the problem and move forward from there.

1. Identify Industry Trends

To identify industry trends, an entrepreneur might examine a variety of research reports, follow publications and industry influencers, or use technology to track internet search traffic.

2. Identify Potential Markets

To identify potential markets, entrepreneurs conduct a competitive analysis. A competitive analysis is the process of evaluating competitors' strengths, weaknesses, opportunities, and threats, as well as their products, marketing strategies, and more, as it relates to an entrepreneur's own strategies. A competitive analysis should be a central part of any business plan; more information on this can be found in the Competition Research section of this chapter.

3. Analyze Demand

Market research methods used to analyze demand may include examining inventory. For instance, is there a particular product that the business is continually running out of? Beyond that, entrepreneurs can also use competitive analysis for demand insight—is there a popular product or service a competitor is providing that the business is not?

4. Forecast Sales

Reviewing current customer trends and studying historical data can help forecast sales. Forecasting sales helps entrepreneurs identify the best times of year for increased sales, as well as when they can expect a decrease in sales due to outside factors such as climate, market conditions, and economic policy changes.

5. Make Business Decisions

Finally, the market research process allows entrepreneurs to make important and strategic business decisions. When conducting valid research, the results naturally inform other areas of business. If an entrepreneur has conducted an analysis on trends or sales forecasting, he or she will be able to make informed decisions about the release of new products.

The market research process mimics the everyday decision-making process. It begins with identifying a problem and leads to determining how best to solve it by putting a plan in action and analyzing results. Market research unveils new business territories to expand into, informs products or services, and increases customer satisfaction, among many other benefits.

Competition Research

To market effectively, businesses must understand their competitive position, or how they relate to competitors within an industry, through market analysis. Competitive positioning involves examination of a business's entire marketing process and its competitors to understand how well products can compete. To analyze competitive position, businesses study the following factors:

Market profile: a description of the market
- What products are being sold in the market?
- How big is the market?
- What technological advances are involved in the market?

Target market: an analysis of potential customers
- What do customers want and need?
- What products are people demanding?
- What similar products are competing to meet this demand?

Competition analysis: an evaluation of competitors
- What are competitors' strengths and weaknesses?
- Do they better meet customer wants and needs?
- What opportunities are present in the market?
- What threats may negatively impact business?

Product differentiation: an understanding of what makes a product unique
- What are the product's strengths?
- What are its weaknesses?
- How does it compare to similar products?

As with any research method, the process of completing a market analysis should be structured. To conduct a market analysis, entrepreneurs should follow the five steps below. After completing an analysis, an entrepreneur will have valuable information about their position relative to competitors. The results of this process are shown in *Figure 4.3*.

1. **Identify competitors.**

   Competitors are companies whose products or services compete in a target market. Competitors should be identified during the initial market research stages, prior to ever starting a business.

2. **Track competitive factors.**

   Competitive factors include advertising, branding, company reputation, price, product, quality, location, sales method, overall sales, stability, and service.

3. **Identify factors as strengths or weaknesses.**

   Factors should be delineated as strengths or weaknesses.

4. **Rank customer needs/wants.**

   Each factor should be ranked in terms of customer needs or wants using a consistent scale. Use a consistent scale, whether that be a word or number scale.

5. **Analyze.**

   Collected data should be analyzed to identify business opportunities.

Case Study

Ethics in Entrepreneurship

Sara is the president and owner of her family whole foods market. She employs many family members, including her brother-in-law, Dean, who serves as the marketing manager.

In Dean's latest marketing campaign, Sara notices some language that could be misinterpreted by customers. Dean argues that the advertisement is completely acceptable because he created it based on psychographic segmentation data. Sara's concern is that while it may appeal to some customers, it could easily offend others.

Utilizing the marketing research process to aid in her decision making, how should Sara approach the problem? What are some decisions Sara could make and what might the outcomes be of those decisions? What is the benefit of Sara utilizing the marketing research process to solve this problem?

FIGURE 4.3

The results of a market analysis detailing an entrepreneur's corporate training business and the competition.

Factor	My Business	Strength	Weakness	Competitor A	Competitor B	Importance
Products	Training courses		X	Training courses	Training in-person and on location	High
Price	$99/each	X		$129/each	Multiple price points dependent on in-person or online trainings; some as expensive as $999	High
Quality	Utilizes current technology	X		Simple PowerPoints set with voiceover	Multiple platforms used, including live Zoom classes	Medium
Service	Live chat option online; 90% of service calls answered	X		Live chat and support during courses; messaging option via Google	Multiple points of contact – phone, messaging, Facebook, live chat, and support	Low
Satisfaction	3.5 out of 5.0		X	3.0 out of 5.0	4.5 out of 5.0	High
Stability	Good; little overhead	X		Would assume little overhead	Great; has been around a long time; well-known in the industry	Medium
Reputation	Considered a good source for local independent courses		X	Central Florida reach for general courses	Solid; very few negative reviews found with multiple large corporations as customers	Medium
Location	Online only		X	Has a physical office location; Central Florida reach	Multiple offices throughout the Southeast	High
Advertising	All digital advertising		X	Billboards, AdWords	Radio, online display ads, AdWords, LinkedIn campaigns	Medium
Sales Methods	Full amount due at registration		X	Allows 10% deposit; payment in full day of course	Depends on the product but allows for invoicing on large corporation accounts and group trainings	High

In addition to conducting a competitive analysis, it is also important for entrepreneurs to assess their own standing in a marketplace. A **SWOT analysis** is a business tool that evaluates a company's strengths, weaknesses, opportunities, and threats. SWOT stands for:

- Strengths: places where a business has an advantage over others
- Weaknesses: places where a business is at a disadvantage in the market
- Opportunities: outside factors that the business can use to its advantage
- Threats: outside factors that may negatively impact the business

For example, a crop manufacturer may identify its strength in productivity, being able to produce many crops over a period of time. However, a weakness may be that it uses costly pesticides in production. The crop company could find an opportunity to acquire more buyers in the market, but could have a weakness due to the increasing opposition of pesticide use. SWOT analysis helps businesses identify areas where they can fill a want or need in a new way. *Figure 4.4* shows an example of a SWOT analysis of a store selling beach products, including towels, sunscreen, and flip flops.

After completing the four sections of a SWOT analysis, entrepreneurs review each item and prioritize them, using the high-priority factors to develop an action plan to move their business forward.

FIGURE 4.4

Internal Factors

Strengths

The locals love us; we offer the lowest priced beach products in the area; knowledge of products and customers help us close deals; employees are invested and buy-in to company branding.

Weaknesses

We don't have as much of the market share as we should as people are still choosing our competitors; store conditions; advertising is not following an established budget; sales are down compared to last year.

External Factors

Opportunities

New tax reform from the federal government is going to drop business taxes 10%.

Threats

A heavy hurricane season is predicted, which could impact business since we sell beachwear and accessories; season could impact tourism; trade embargoes put in place by the federal government could affect exports.

Sounds of Success with Digital Records

Jorge Brea was born in Santo Domingo, Dominican Republic, in 1984 and moved to the United States in 1992. Like many others growing up, Jorge became captivated by music of all types and at the age of 12 started dabbling with using computer software to create music. Three years later, his music sounded so good that he started releasing it on independent record labels based in Florida and eventually in the United Kingdom.

"After releasing 45 vinyl records, I wanted my own record label but had a problem—I didn't have the funds to press my music on vinyl or CD," he said. Around the same time, music was going through a digital shift. Napster had taken its toll on the industry and spaces like iTunes and Beatport had launched. That's when Jorge decided to create a digital record label and—to his surprise—people bought his music.

In fact, people were buying consistently enough that he started to earn $100 a day off his own music. To make more money, Jorge officially launched his company **Symphonic Distribution** and started working with other artists to release their music through his label.

Symphonic Distribution now services more than 10,000 record labels and artists and has experienced tremendous growth. The company has been on the Inc 5000 list, is one of the fastest growing companies in the Tampa Bay area, and continues to win multiple awards.

While the awards and growth are great accomplishments, Jorge takes more pride in the purpose of the company and stays focused on ensuring that it can truly be independent and service artists and record labels with a personal approach.

To future entrepreneurs, Jorge says to work hard, be humble, and never give up. He adds that he wishes he would have known how important planning is to effectively build a business. "Many bootstrapped companies or new businesses just start creating and working hard to achieve results, but planning goes a long way." That said, Jorge also acknowledges there is something fun about taking a risk and failing—you only get better by failing and learning from it.

Name
Jorge Brea

Company
Symphonic Distribution

Location
Tampa Bay, Florida

"Admit that you aren't the best at something if you truly feel you aren't. Showing vulnerability helps and it's okay that you aren't the smartest in the room. Just hire people that are the smarter ones!"

Doing business without knowing the target market prevents entrepreneurs from reaching their objective of making a profit. Determining an appropriate target market for a business venture involves conducting market research and analyzing demographics to identify customer wants and needs.

Market Analysis in a Business Plan

Too often, new businesses spend thousands of dollars on start-up costs without first researching the market and competition. To be successful, it is critical for entrepreneurs to include a market analysis in their business plans. Conducting a market analysis helps entrepreneurs see where there are gaps in consumer needs that could be filled with a new business.

While the format varies from industry to industry, there are four standard components to include in the market analysis section of a business plan.

1. **Identify the Target Market**

   A target market is the group of people a business markets and sells to. Entrepreneurs analyze customer groups and develop a plan to identify, reach, and keep customers in a specific target market.

   ☑ Who is my target market and why? Who are my potential customers?

   ☑ What are my customers' wants and needs?

   ☑ What are the personal and geographical demographics of my customers?

   ☑ Are my customers businesses or private consumers?

   ☑ What motivates my customers?

   ☑ Is the market saturated or wide open? Market saturation means there are already too many similar businesses in the same area.

   ☑ Are customers willing to pay for my product(s) or service(s)?

2. **Analysis of the Competition**

   Competition includes other businesses providing similar products or services.

   ☑ Who is my competition?

   ☑ Are my competitors successful?

   ☑ How do my competitors reach their market? How is the competition advertising their businesses?

3. **The Outlook of the Industry**

   The outlook of the job industry helps entrepreneurs recognize current and future growth of a business. It also helps business owners analyze the demand for a good or service and opportunities in an environment.

   ☑ What is the future outlook of my business?

   ☑ Is it a growing industry? Or is this industry likely to be phased out over time?

☑ Is the industry local, national, or global?

☑ Does the industry extend to international business or is it likely to become a global industry in the future?

A helpful resource to research the future outlook of an industry is the Occupational Outlook Handbook (OOH) website (www.bls.gov), provided by the US Bureau of Labor Statistics. The OOH is a free online service providing prospective entrepreneurs and job seekers with useful knowledge about the outlook of a specific career or business.

4. **The Owner's Personal Strengths**

Strengths include personal attributes and skills:

☑ What is my competitive advantage?

☑ Can I offer something to the market that my competitors are not offering?

☑ What specific skills do I possess that will allow my company to be competitive in this market?

Creating a Market Analysis

Conducting a market analysis is an important first step in determining if there is a need or audience for your business. Knowing the market's needs and how it is currently serviced can provide you with key information essential in developing your business and the products or services you offer. It can also help you determine who your potential customers might be.

Review and contemplate the following questions to help you conduct a market analysis for your business idea.

☑ Who is my target market?

☑ What competition do I have?

☑ How does the outlook look for my industry?

☑ What are my personal strengths?

Chapter Review

Market Research Process

In this chapter, you learned about target markets, market segmentation, the marketing research process, appropriate tools used to conduct effective market research and analyze results, and how to properly analyze a business utilizing competitive and SWOT analyses.

Instructions

Demonstrate your knowledge of this chapter by completing the following review activities.

Note: If you do not have access to the eText of this book, Chapter Review worksheets will be provided by your instructor.

Define Key Terms

Apply your knowledge of the chapter reading by defining key vocabulary terms.

Test Your Knowledge

Test your knowledge of the chapter reading by answering short answer questions.

Read and Write

Review Ethics in Entrepreneurship about the language concerns Sara has in her company's marketing campaign. Apply what you have learned by writing an essay about the advantages and disadvantages of Sara taking actions to correct the problem.

Listen and Speak

Apply your knowledge of the chapter by selecting, researching, and presenting on the marketing research process and how it applies to effective decision-making.

Create and Design

Use what you have learned in this chapter to create a SWOT analysis.

Build It

Review the Build It section from this chapter about creating a market analysis. Apply what you have learned by creating a market analysis for your business plan in the Build It activity.