



Short Note # 17

Marketing Research by Example

Understanding the unique characteristics of a market is essential while planning to start a startup to serve that market. The process of gathering data, analysing them, and learning the market is known as market research. One can collect data from a third party who have already collected them for some other purposes (this is called Secondary Market Research). One can also collect the data by directly interacting with the target audience (known as Primary Market Research).

When one collects market information from the target audience for the first time for own consumption it is termed as primary market research. You may either do it yourself, using some of your employees or hire someone (say a market research consultant) to do it for you. Therefore, you go directly to the source – usually potential customers, decision-makers, people with knowledge in the domain, and existing customers in your target market. You take their feedback on your queries and analyze the data to make sense of what they say. Some examples of the methods of primary market research are:

- Your representatives meeting individuals and asking direct questions and writing down the responses against the respective questions.
- Questionnaires survey – either by post, mail, or online (such as google form)
- Interviews – you may call people and have close conversations either face-to-face or over the phone.
- Focus groups – you invite people in a room and sensitize them on the issue and take feedbacks.
- You watch customers while they shop to understand what exactly attracts their attention or motivates them to buy.
- Have a closer view of the competitive landscape by gathering intelligence from the market and market players particularly competitors.
- Causal research

Primary research can be three types by objectives (meaning that your objective may be to have a bird's eye view, or more detailed view or a practical view):

Primary data are those that are collected for the present research. Collecting, analysing, and drawing inference is the process of PRIMARY MARKET RESEARCH.

- Exploratory:** when your objective is to gather some early information to make a go-no-go decision on the new idea you collect some approximate but genuine information. You want to get some information that gives you comfort about the market potential. You may take a call whether it is worth doing detailed market research or not. This process is simpler and the sample size is small. You may

collect the data by yourself or engage someone to do it on your behalf at a cost (**primary data and primary market research**). You may collect the data from some third party and do some research based on such data (**secondary data and secondary research**).

- ii. **Descriptive or specific:** In this case, you collect detailed information to understand the exact market behavior, market mix, and demand-supply gap, etc. You want to describe the market as completely as possible helping you to make decisions.
- iii. **Causal research:** You introduce some stimulation (for example reduce or increase the price, or change the packaging, or change the color of the product, etc.) and see how customer reacts to the stimulation (increase or decrease in sales).

Secondary market research

Secondary data: Data that are already available somewhere that were collected for some other assignments and can be accessed without much cost are secondary data.

Secondary market research: Analysing already available data to understand market behaviour is secondary market research. **Secondary research is mostly exploratory since the data used in such research have been collected for some other purpose and may not describe the market holistically.**

A simple example

Suppose you manufacture pastries and you have acquired a good customer base supported by a brand name, say Tasty&HealthyFud. Let us presume that there is one major competitor (besides other small players), say smartfud. You find that smartfud is biting into your market and customers are moving away from your brand to that of smartfud. You have tried all means to improve taste, nutritional value, packaging, feeling, and customer care, but to little avail. A consultant suggests that you diversify products and launch some niche product targeting a sub-segment within your broad segment. You plan to launch a sugar-free pastry. Launching a new product requires a lot of investment including the fixed capital, working capital, publicity, promotional, marketing, storing, packaging, and other overhead costs. You have made some ballpark estimate of the requirement of funds that comes close to ₹ 10 million (M). You have about ₹ 2.5 M of investible funds from your own source and must borrow ₹ 7.5 M from the bank to meet the financial outlay (all the costs). A bank loan comes at a huge cost. The present interest rate is between 12 to 15% p.a. for a commercial loan. The loan of ₹ 7.5 million will attract more than ₹1.1 M of interest annually [you have to repay the principal as also annual interest every month]. If your business does not make an EBIDTA (Earnings Before Interest, Depreciation, Amortization, and Tax of more than this amount, you will end up burning cash. You do not want to take such risks without a clear understanding of whether you will sell more than the break-even level [when sales equal the aggregate costs. To be discussed later] of sales.

Exploratory market research: One way of gaining an insight into the potential sales and profit thereof is to do some market research. First off, you do not want to spend a lot of good money on market research as that may lead to sunk cost without any gain if it would reveal that

people are not much interested in sugar-free pastry. To start with, you want to check whether people at large are okay with sugar-free. So, you gather comparative data on other sugar-free foods such as biscuits, beverages, and health foods. You get these data from the internet and other secondary sources, some free and some with nominal cost. These data reveal that the percentage of sugar-free food products sold in the market is about 25% of its traditional counterparts and the price is always at a premium [*this kind of data gathering, i.e., collecting data that are readily available at some source and can be acquired without much expenses is secondary market research and exploratory in nature*]. That information encourages you though it does not give you confidence that similar choices will be reflected in the consumption of pastry. So you decided to prod further. [Use of available data that was collected by others for some other objective and is partially useful to you or others are 'Secondary data' and this kind research is known as '**Secondary market research**'.]

You now institute primary (collecting data for the purpose at hand) market research but want to restrict the budget. So, your objective is not to do a thorough research but to get some idea (this is still exploratory market research) [thorough research to describe the nature and of the market would be a descriptive market research and would cost higher]. You place a few persons at different shops who interact with customers to know their preference for sugar-free pastry. Say, they talk to about 200 persons and 20% of them express that they would love to have sugar-free variety even at a 20% premium price over the standard pastry [this is a mix of **qualitative** and **quantitative** data. Most people said they would like it but a numerical value is difficult to assign to measure their level of liking. However, there was numerical data on how many people were favorable and how many were against. This is quantitative data, data that are expressed in numerical terms]. So, you feel positive about the idea but do not feel fully confident. You are also mindful that those who have problems with white sugar might not have visited the shops when the data were collected and perhaps are not represented in the sample at all. That encourages you to do a deeper analysis.

Descriptive market research: Enthused by the results of the exploratory (but primary) research, you now institute detailed market research [descriptive]. You want every detail as far as plausible to understand the specific choices, seasonal variations, geographical variations, and demographic variations of demand for sugar-free pastry. You prepare a detailed but short questionnaire and send them to all your customers. Suppose, 10% of them respond and 85% of them favor the idea of a sugar-free pastry. So you become even more confident that the market is ready for a sugar-free pastry. It came with a lot of costs. However, you want more nuanced information such as what price premium can the customers absorb without hurting them. This is done through causal research (a form of primary research).

Causal market research: Now, you are more positive about the idea. But you want to make sure that people will actually like the taste and pay some premium price. So, you produce some sugar-free pastry in your existing factory and bundle it with regular pastry (two-in-one). You take feedback about the comparative taste of the two varieties using code names. You also do a blind test. You invite selected customers and offer them the two variety of pastries without revealing their identity. The customers give their rating on both varieties.

The blind test reveals that there is no preference of the customers to the traditional pastry over the sugar-free variety. These data validate your hypothesis that customers will like the sugar-free variety as much as they do the standard ones and the health-conscious segment will be ready to pay some premium (your cost of production is about 2% more for the added cost of sugar-free sweetener). This method of study to see the reflection of people to some kind of stimulation (here the blind test) is known as causal market research. The cause is the stimulation and the reflections are the results.

You approach the bank with all these studies to convince them that you have a winning business proposition. Most of the banks would be convinced about your capability to start and run this business simply by looking at the market research you have performed.