



HOW TO CONDUCT MARKET RESEARCH FOR YOUR BUSINESS?

(step-by-step guide)

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WHY INVEST TIME IN MARKET RESEARCH?

Whether you're a prospective entrepreneur, a struggling startup or someone who's been successfully trading for years, regular market research is equally important for the future and survival of your business.

Businesses do not exist in isolation but in an ever-changing environment that has a direct influence on how they operate and their ability to generate profits. This includes factors such as government regulations, demographic changes, state of customer demand, new competitors, new technologies that can change how products and services are purchased and consumed, etc.

Although you can't control the external environment, by doing regular market research, you can spot trends, identify sudden profit opportunities, prepare for regulation changes or fall in demand for certain products, etc.

Prospective entrepreneurs – Market research will enable you to determine whether there's a market need for your products or services, what profits you can expect and what it takes to succeed in your industry or niche. You may even discover another customer need that's currently unfulfilled and can be turned into a profitable business.

Struggling startups & small businesses – Market research will enable you to find out the reasons behind your struggle and help you decide whether to continue the business or close it



down. It could be that the market as a whole is declining, or maybe you just need to make small changes to your products or offer better after-sales service to be more competitive.

Successful businesses - Market research will help you identify negative market trends and take timely action to protect your business and stay competitive. It will also help you identify and take advantage of opportunities to grow your business, before they're exploited by the competitors or new entrants.

In short, market research is crucial for the success of any business for it significantly reduces financial and other risks. Therefore, it's important to make it a part of your daily routine from the very beginning. Don't wait until you start losing money or market share.

THE MARKET RESEARCH PROCESS

Market research isn't as difficult and time-consuming as many believe, provided you approach it in the right way. In this step-by-step guide, we'll show you how to conduct market for your business idea or existing business, what

information to collect and how to find it.

We recommend using this guide with our [market research template](#), which can be downloaded from our website.

STEP 1: Define your industry and niche

When defining your industry or niche within the industry, focus on the customer need(s) your products and services satisfy and the region where they are (will be) available.

Example 1:

Business: Dog grooming studio

Location: Manchester

Customer need: Keeping dogs clean and healthy

Industry: Pet grooming in the UK

Niche: Dog grooming in the UK

Comment: The owners should research dog grooming niche in the UK. There's no need to research the global industry because people in other countries often have different lifestyles and habits, and those insights wouldn't benefit a business based in Manchester. There's no need to research the whole UK pet grooming industry if they only offer products and services for dogs.



Example 2:

Business: Social media management software

Location: London

Customer need: Raising brand awareness

Industry: Digital marketing (global)

Niche: Social media marketing (global)

Comment: This product can easily be offered to businesses around the world so researching the global market is highly recommended. It will provide the owners with important insights such as which international markets are the most profitable and should be entered first.



Example 3:

Business: Bespoke furniture maker

Location: Bristol

Customer need: Home, office or shop furniture

Industry: Woodworking industry in the UK

Niche: Home furniture or commercial furniture market in the UK

Comment: In many industries businesses can choose whether to work for residential or commercial clients, or both. Instead of making the decision based on personal preferences, the business owners should research both market segments to find out which one is more profitable and where they have a better chance to succeed as a new business.

STEP 2: Past, present and future state of the industry

Research your industry to find out:

- if the industry is growing or declining
- the average profitability
- the level of competition
- the critical success factors
- the costs of entering and exiting the industry
- the major segments
- the latest trends

Some of the most reliable sources of industry data are:

- Industry and market reports published by consulting firms such as KPMG, Deloitte, PWC and Ernst & Young. They are free and can be downloaded from their websites.
- Libraries often subscribe to a number of market research services and databases, which members can access for free. Some of the best UK libraries offering business resources are [City Business Library](#), [British Library](#) and [LSE Library](#).
- Industry associations. Joining the industry associations is a great way to keep up to

date with the latest developments in your industry. You can subscribe to their magazine or newsletter, attend the events and trade shows they organise, etc.

- International organisations and databases such as [World Bank](#), [International Monetary Fund](#), [United Nations](#), [Eurostat](#), etc.

Once you've researched the industry, enter your findings in the table on the "industry" tab of the market research template. Use at least 2 – 3 different data sources and when comparing them, make sure you understand how the data was collected or calculated.



STEP 3: Create customer profile(s)

Depending on the products and services you sell, create one or more customer profiles that include information such as their location, age, income, profession, basic need, media they consume, etc. Generally speaking, your target

customers are people experiencing the problem your product or service can solve, and who are ready and able to buy it. Use our market research template, “customers” tab, to complete this section.

When creating customer profiles, never rely on personal assumptions because they often prove to be wrong. Instead, research your target customers using both primary and secondary research techniques.

Secondary research includes the data sources mentioned in the previous step, consumer research companies such as [Nielsen](#), [Kantar](#), [Ipsos](#) and [GfK](#), newspaper articles, online forums, Facebook groups, other social media conversations related to your industry, your competitors’ customer reviews, etc.

Primary research techniques are based on collecting information directly from customers through surveys, interviews, feedback forms, service provision, product prototype testing, free samples, etc. This is the best way to get to know your target customers, learn about their needs, challenges, how they use the products, etc.

If your new business or new product within the existing business requires a large financial investment, primary research is a must or you risk developing a product no one will want to buy. This is not really necessary for the services businesses that require very little investment for



they can easily adapt their offering to the customers’ needs as they go.

At the end of this step you should know who your customers are, which products and services they need, and through which marketing channels you can reach them. You need this information to calculate the market size and plan your marketing activities.

STEP 4: Calculate TAM, SAM and SOM

In this step you will calculate the market size that will later help you estimate your profits.

TAM is the total market. SAM are the segments you plan to target. SOM is your share of market.

TAM (total addressable market)

Also known as total available market, it's the annual revenue if your company achieved 100% market share. Depending on your ambitions, it could be local, national, international or global market for the product and services you sell. There are two ways to calculate TAM: top-down and bottom-up approach. The top-down approach is based on the market data published by market intelligence companies.

Example (top-down):

If we take the dog grooming business in Manchester as an example, we could say that according to Mintel, the value of UK pet grooming market is £2 billion and that 2/3 of that amount was spent on dogs. It means that UK dog grooming market is worth £1.33 billion. Then, if we assume that Greater Manchester represents approximately 4.5% of the UK market, we get the TAM of £60 million. The biggest problem with this approach is that every market research company has its own method for calculating TAM, and it's often unclear what the market value includes.

To calculate TAM using bottom-up approach, which is considered more accurate, you need:

- The total number of customers
- The average annual spending per customer



There are many ways to calculate the total number of target customers such as using Census data, surveys, competitors' data, etc. The average annual spending per customer can be estimated based on your sales records or competitors' prices, in case you're a startup.

Example (bottom-up):

To estimate TAM for the dog grooming business in Manchester we need to find out how many dogs (rather than dog owners) there are in the region. We start with Census 2011 data, according to which the population of Greater Manchester was about 2,800,000. Then, we estimate the number of dogs per person in England or UK, whichever data we are able to find. For example, according to the PDSA (The

People's Dispensary for Sick Animals) there are about 9.9 million dogs in the UK, and according to the Office for National Statistics there are 66,435,600 people living in the UK. That's approximately 0.15 dogs per person.

$2,800,000 \times 0.15 = 420,000$ dogs in Greater Manchester

The competitors charge an average price of £30 per grooming session and after speaking to a number of dog owners, we find out that dogs are professionally groomed about four times per year. That gives us the average annual spending of £120 per dog.

The TAM is $420,000 \text{ dogs} \times £120 = £50,4 \text{ million}$

To get better estimates, instead of using the overall averages, you can take into account different breeds of dogs and calculate TAM for small, medium and big dogs (or, dogs with short, medium and long hair) separately, and then add them up to get the total TAM. You can also exclude the number of people who groom their dogs at home, etc.

The more details you include in your calculation, the more accurate it will be. This is especially important if you need to estimate the global market value for your products because economic prosperity and consumer preferences vary widely across nations.

SAM (serviceable addressable market)

Also known as serviceable available market, it's the part of TAM your company plans to target first. To calculate your SAM, you first must



define major segments within the TAM. Then, based on the available skills and capacity, you can estimate which segments your business can realistically serve and add them all up to get the value of your SAM. In our dog grooming business example, the market could be segmented by area of Manchester, dog breed or size, grooming service type, etc.

SOM (share of market)

Also known as serviceable obtainable market, it's the share of market your company believes it can capture, taking into account its work capacity and the level of competition. In our example, the owners of the dog grooming business should first find out how many dog grooming businesses already operate within their SAM. Then, based on their competitive advantage and other factors such as the available workspace and possible competitors' response strategies, they can estimate their potential market share.

STEP 5: Create competitors' profiles

To successfully position your business in the market, you must know who your competitors are, what they offer to customers and their strengths and weaknesses. The goal is to identify your competitors' weak points and what they are not doing well, their common struggles, marketing strategies, current trends among the competition, etc.

This information will help you create a value proposition that will differentiate your business from the competition and show to customers how your products and services are different and provide a better value. If you have many competitors, you can group them by product or



location and create profiles for the groups rather than individual companies. Use our market research template, "competitors" tab, to analyse your competitor data.

STEP 6: Analyse potential suppliers and personnel needs



Make a list of suppliers your business will depend on. Then, research specific companies, their prices, location, shipping costs and times, bulk discounts, and anything else that could be relevant to your business. This will give you an idea of how much you'll need to charge your customers in order to make a profit or break even. If you plan to employ people, make a list of potential job positions, and then, research the labour market in your region to find out whether there are enough people with the required qualifications, their average salaries, etc. You may also consider alternatives such as outsourcing or hiring freelancers.

STEP 7: Analyse your business environment

The goal of these analyses is to give you a bigger picture of your business environment and help you develop a business strategy that will enable you to take advantage of opportunities and avoid potential threats in the marketplace.

To analyse the business environment, you can conduct:

- SWOT analysis (strengths, weaknesses, opportunities and threats) - for short-term

planning and issues that require immediate attention.

- PEST analysis (political, economic, socio-cultural and technological factors) – for long-term planning in existing and new markets.
- Porter’s Five Forces analysis (threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry between existing competitors) – to assess your company’s profit potential within the industry

SWOT analysis

SWOT analysis is a very simple and effective tool that enables business owners to identify what they do well, where they must improve, and the opportunities and threats facing their business. It’s often used for short-term planning. To conduct a SWOT analysis, first you need to identify strengths and weaknesses of your business, and opportunities and threats in the external environment that could have a positive or negative impact on your business. To help you get started, there are a few examples of strengths, weaknesses, opportunities and threats in our market research template, “swot” tab. If you have employees, get them involved in this process as well.

Then, think how you can use your strengths to take advantage of the opportunities and minimise the effect of potential threats, as well as what you can do to overcome your weaknesses. Make a list of possible strategies,



identify those with the highest potential gain and turn them into actionable plans. SWOT analysis can be applied to an entire business or specific projects such as new product launches, advertising campaigns, international market expansions, etc.

PEST analysis

PEST analysis, also known as PESTLE analysis, is a simple and widely used tool for analysing political, economic, socio-cultural, technological, legal and environmental factors that will shape your business environment in the future.

Similar to SWOT, PEST analysis helps companies identify business opportunities and gives them advanced warnings of significant threats. It helps business owners prepare for the upcoming changes, take advantage of the opportunities and safeguard their business from the threats. It's a useful tool for formulating long-term plans and business strategies in a country or region, new or existing markets, etc.

To conduct a PEST analysis, using the question prompts in our market research template, make a list of upcoming or expected changes in your business environment. Then, brainstorm the opportunities and threats for your business that could arise from those events. The last step is to develop strategies for managing the opportunities and threats that are likely to result in high gains or losses.

Porter`s five forces analysis

It was developed by Harvard Business School professor Michael Porter, to analyse the competitive forces within an industry that affect profitability of its participants. Knowing how each force can affect their profitability helps companies develop business strategies that generate the desired profits. Michael Porter identified five forces that make up the competitive environment, and which can affect your profitability:



- Power of suppliers – to increase their prices and reduce your profits
- Power of buyers – to drive down product prices and reduce your profits
- Competitive rivalry – more competitors drive down prices and reduce your profits
- Threat of substitutes – your customers can use instead of your products if you raise prices and reduce your profits
- Threat of new entrants - how easy it is for new competitors to enter the market if they see that you are making good profits, and then drive your prices down and reduce your profits

To conduct a Porter`s Five Forces analysis for your business, follow the same process as explained above for SWOT and PEST analyses. In our market research template, “5forces” tab, you`ll find question prompts and useful tips to help you get started.

CONCLUSION

By the end of the market research process you should know:

- if the industry (niche) is worth investing in,
- if you have the skills and resources necessary to succeed in that industry, and
- what business strategies are likely to generate the desired profits.

If you identify a profitable business opportunity and decide to start a business in that industry, your market research efforts shouldn't stop there. Subscribe to the industry publications to have the latest news sent to your inbox.

From time to time, go to trade shows and meetups to exchange experiences with other business owners in your industry and learn about the latest technology developments.

Try to dedicate at least 30 minutes per day to market research (e.g., while you have your morning coffee). Revisit and update the market research template regularly. Before you start working with customers, make sure to have some kind of a feedback form ready to collect their feedback and use it to improve your products and services.

We hope this guide helps you research your external environment and make better decisions for your business. In case you need further assistance, visit the [market research services](#) page on our website or contact us at marketresearch@mcboffin.com.

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