

Section 3.2

Using Analytical Tools To Understand The Marketplace



Wendy Umberger and Dawn Thilmany
Department of Agricultural & Resource Economics
Colorado State University



Section Summary



- Show importance of research
- Cover the steps of market analysis
- Define two types of market research
- Select a research firm



Research Is Important For Direct Marketing



- Perform market feasibility analysis to match consumer's need for a product with a producer
- Determine the business' ability to fulfill that need
- Discover if a profitable market exists
- Important because 80% of new products and services fail within 3 years
- Label/brand recognition



Steps In Market Analysis



1. Identify your target customer
2. Define your product
3. Understand trends affecting your market
4. Understand your competition




1. Identify Your Target Customer



- Identify the people with:
 - ▶ Greatest need for your product
 - ▶ Ability & willingness to purchase your product
- Ask:
 - ▶ Who are your customers?
 - ▶ Where are your customers?
 - ▶ Can you reach your customers?



Who Are Your Customers?

- 
- Demographics: age, income, education, gender, occupation, family size
 - Geography: urban, suburban, rural
 - Personality: social class, values and lifestyles
 - Behavior:
 - ▶ Perceived benefits from product
 - ▶ Usage rate
 - ▶ Brand loyalty towards similar products



How Many Customers Fit Your Customer Profile?



- Use surveys and research to determine number of customers that fit into your target market
- Market must be large enough to generate a satisfactory volume of sales




Where Are Your Customers?

- 
- Determine from demographic & geographic data
 - ◆ Target market is highest concentration of customers who fit your desired profile
 - Access to potential customers:
 - ◆ Shelf space in retail stores
 - ◆ Brand recognition
 - ◆ Distribution channels: farmers market, restaurant, mail-order, Internet, community supported agriculture



2. Define Your Product

- 
- Describe your product's attributes for labeling & advertising purposes
 - What innovation does it bring to the market?
 - How will your product affect present market structure? (Is it a substitute for a competitor's product?)
 - Remember, you may change your product after conducting market research and analysis




3. Understand Market Trends



- What trends affect the success of your product?
- Trends indicate whether consumers like particular products and demand them in the market place
- Look for upward moving trends in your market; greater potential for product success
- Trends are always changing; important to monitor them in your market




Finding Market Trends

- 
- Forecast future sales of similar products
 - Determine stage in product life cycle
 - Look for regions where sales are increasing
 - Project seasonal variations
 - Understand changes in technology and how they may affect production and marketing
 - Predict market surges through fundamental analysis (local and national news, USDA reports, etc.)



Consumer Food Trends

- 
- Natural & organic purchases up 36% per year
 - Ethnic fusion (foods combined from different ethnicities) up 6-7% per year - increased demand for variety
 - Interest in improving health: vitamins, herbs, homeopathics, nutraceuticals

Source: Jean Kinsey. 2000. "The Changing Global Consumer".

Presented at the 2000 IAMA World Food & Agribusiness Congress. Chicago, IL.




Consumer Food Trends



- Increased demand for functional foods that promote and maintain health
- Consumers demand “grab and go” packaging or portable, convenient foods



4. Know Your Competition

- 
- What products (brands) will you compete with in the market place?
 - What are the vital statistics of your competition?
 - ◆ Firm size, sales area, length of time in business, financial condition
 - What other services or products do competitors offer?
 - How do other firms compete with each other?



How To Gain Information About Your Customers



1. Primary Research

- ▶ Sample a specific population
- ▶ Conduct surveys, focus groups, laboratory tests, experiments

2. Secondary Research

- ▶ Review and analyze existing data



Primary Qualitative Market Research



Personal interviews and/or focus groups:

- ▶ Identify attitudes, opinions and behavior
- ▶ Provide direction to develop questionnaires
- ▶ Develop relationship with potential customers
- ▶ Require a lot of time



Primary Quantitative Market Research




Personal interviews, telephone surveys, laboratory experiments:

- ▶ Good for sampling large groups
- ▶ Flexible, may be able to have other groups conduct this type of research for you
- ▶ Biases may occur through surveys
- ▶ Costly



Primary Quantitative Market Research

- 
- Taste panels (consumer or trained-sensory taste panels)
 - ▶ Provide information on consumer tastes and preferences of different products
 - Sales data analysis
 - ▶ Price response
 - ▶ Promotion response



Should You Use Quantitative Or Qualitative Research?



- Set goals you want to accomplish from primary research
- Determine how much time you have to conduct research
- Calculate a budget for the amount of research you can perform




Secondary Market Research

- 
- Gain information on trends, competition and customers
 - Secondary sources (see Appendix 3.2)
 - ▶ Directories
 - ▶ Internet sites
 - ▶ Periodicals
 - ▶ Published data from government or professional marketing firms



Secondary Market Research

- 
- Food market data provide useful supply and demand information on various food products
 - Market size analysis determines potential sales volume
 - Competitor analysis determines market share potential




Advantages of Secondary Market Research



- Reduces effort spent locating and gathering market information
- Easiest form of research
- Inexpensive
- Macro-economic environment



Selecting Research Firms

- 
- Experience and qualifications
 - ▶ Amount of work within industry or similar industries
 - Client relationships
 - ▶ Client reference list
 - ▶ Firm's understanding of your goals
 - ▶ Firm's plan for gathering info and results
 - Cost
 - ▶ Request proposals



Always Remember



- Know all aspects of your market to help you avoid mistakes, but this is not a guarantee for success
- Look for constantly changing markets, consumers, costs and competition
- Continuously update market analysis as your business evolves
- Adapt and react to the market and changing consumer tastes and preferences



Appendix 3.2



Directories:

- Colorado Organic Producers Association at <http://www.organiccolorado.org/>
- Cattle Fax at <http://www.cattle-fax.com/>
(members only)
- Local Cooperative Extension Office



Appendix 3.2



Internet sites:

- Food and Agricultural Policy Research Institute at: <http://www.fapri.org/>
- Cattle breed association Web sites
- National Cattlemen's Beef Association at: <http://www.beef.org/>
- Department of Agricultural and Resource Economics – Colorado State University at: <http://dare.colostate.edu/>



Appendix 3.2



Periodicals:

- Beef Magazine
- Drovers
- Cattle breed association magazines and newsletters:
 - ▶ Angus Journal, American Hereford Journal, Charolais Journal, The Register (Simmental), Gelbvieh World, Limousin World, Shorthorn Assoc. Newsletter, Maine-Anjou Voice



Appendix 3.2

Published data:

- USDA Ag Marketing Service Publications at:
<http://www.ams.usda.gov/directmarketing/publications.htm>
- Journals:
 - ▶ American Journal of Agricultural Economics
 - ▶ Review of Agricultural Economics
 - ▶ Journal of Agricultural and Resource Economics



Appendix 3.2



Published data:

- Local university publications
- University Cooperative Extension
- National Cattlemen's Beef Association



References & Additional Resources



- Jean Kinsey. 2000. *The Changing Global Consumer*. Presented at the 2000 IAMA World Food & Agribusiness Congress. Chicago, IL.
- ABMR 02-07. W. Umberger and S. Hine. *A Step-by-Step Guide on How to Write a Successful Business Plan, Part III-Analyzing your Market* November 2002. 3 pp. at <http://dare.agsci.colostate.edu/extension/abmr02-07.pdf>