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A STEP-BY-STEP GUIDE ON HOW TO WRITE A SUCCESSFUL BUSINESS PLAN PART III—ANALYZING YOUR MARKET

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- *Market research is vital for gaining information about your customer, competition, and market trends.*
- *As your business evolves, you should continuously update your market analysis.*
- *Who are your customers?*
- *Where are your customers located?*
- *Can you access your customers?*

This is the third fact sheet in a four part series on business planning. This fact sheet will provide readers with guidelines for conducting market research and completing their market analysis. The purpose of a market analysis is to help both you and the reader of your business plan to understand the potential market opportunities and challenges facing your business.

The Importance of Completing a Market Analysis

Often times we think that if we have a good idea, and if we are able to produce our product or offer our service that we will be successful, however this is not the case. Approximately 80% of new products and businesses fail within three years after they reach the market. Market research or a market analysis is vital for successful business planning and direct marketing. A

market analysis allows the entrepreneur to match the consumer's need for a product or service with his/her business's ability to fulfill that need. A market analysis also helps you to determine if a profitable market exists. In order to conduct a market analysis, you must 1) define your product or service, 2) understand the trends affecting your market, 3) characterize your customer, 4) analyze your costs, and 5) understand your competition.

Market Research

Prior to discussing the steps necessary to complete a market analysis, we will first discuss types and sources of market research. Market research is vital for gaining information about your customer, competition, and market trends. There are two types of market research: primary research and secondary research.

Primary Research

Primary research is predominantly used to gain information about potential consumers by sampling a specific population. There are two categories of primary research: qualitative and quantitative. Personal interviews and focus groups are common qualitative research methods. Qualitative research can be very helpful for entrepreneurs who want to gain information on a small sample of consumers' attitudes, opinions, and potential purchasing behavior. Telephone, mail and in-person surveys are common quantitative research methods. Surveys are useful for sampling

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large groups, however, development of a survey requires experience and may be costly; furthermore, survey results may be subject to biases. Due to the complicated nature of primary research, secondary research may be the most useful research method for small business entrepreneurs who have a limited budget.

Secondary Research

Secondary research is information that is already compiled and is most useful for gaining information on market trends, your competition and your customer. You can gain secondary information by reviewing and analyzing existing data. The following are useful sources of low-cost or no-cost secondary data: the Internet, the local library, published periodicals, the United States Department of Agriculture (www.usda.gov), other government agencies, and university extension offices. Professional marketing firms may also provide you with useful information; however, there may be a charge to access their information. Secondary data may be less expensive and easier to obtain than primary data, because you only have to search for the information rather than actually conducting a survey or an expensive research trial.

The Steps of a Market Analysis

Defining your Product or Service

The first step of a market analysis involves defining your product or service. You should identify the unique benefits, features, or characteristics that set your product/service apart from your competition. You should quantify the innovation that your product brings to the market and determine how your product/service will change the present market structure. Answering these questions will help you identify your customer and competition. Remember that your product or service may change after conducting the next three steps of your market analysis.

Understanding Market Trends

Market trends are important because they indicate whether consumers like particular products and demand them in the market place. Trends predict the continued success of your business. Obviously, a business would want to compete in a market with an upward moving trend. The following are examples of trends that would likely affect a business planning on marketing a new, value-added food product in Colorado:

- Annual real disposable per capita personal income increased by 14% from 1996 to 2002 in the U.S., increasing from \$21,235 per capita to \$24,171 per capita (U.S. Census Bureau, 2000).
- Colorado's population is projected to grow nearly 20% from 2000 to 2010 (Colorado Department of Local Affairs, Demography Section).
- Consumer demand for organic and natural foods is increasing 20% each year (Food Marketing Institute).
- From 1997 to 2002, U.S. per capita consumption of chicken increased by 12.5% while U.S. per capita consumption of beef increased by only 2.6%.

An understanding of the trends affecting your market is useful for forecasting future sales, determining regions where sales are increasing, projecting seasonal variations in demand, and predicting market surges.

Identifying your Customers

When analyzing your customer, you should identify the group of people with the greatest need for your product or service and with a willingness as well as the ability to purchase your product or services. The following are three basic questions that you should answer in your market analysis:

- 1) Who are your customers?
- 2) Where are your customers located?
- 3) Can you access your customers?

Demographic data and psychographic data will help you to identify "who" your customers are and what type of products and services they prefer. Demographic data includes information on potential consumers' age, annual household income, education, gender, occupation, family size and composition, and geographic location (urban suburban, rural). Psychographic consumer data includes the consumers' religious beliefs, lifestyle, brand loyalty toward similar products, hobbies, personal values, and shopping behavior. The demographic and psychographic data will help you answer the three questions mentioned above. A key point to remember is that the number of potential customers must be large enough to generate a satisfactory volume of sales.

Cost Analysis

It is always essential to understand your costs when putting together a marketing plan. Even though costs should not be the factor that determines your price—customer value and demand will dictate price—the costs associated with bringing your product or service to market will, in fact, determine whether or not you will be profitable. If you cannot at a minimum cover your variable costs in the short run and fixed costs in the long run, then you may need to find another way to market your product or service—or even put it on the shelf for now and re-examine your idea at a later date.

Competitive Analysis

An important part of your market study is the competitive analysis. This analysis will provide you with information that will enable you to create a product or service that will have a greater chance at success in the marketplace. Additionally, a competitive analysis will help you determine if the market is already saturated or if there is room for you to offer a product/service that can be competitive in the market environment.

A SWOT analysis is a useful tool for predicting your business's ability to compete in the marketplace. A SWOT analysis is simply recognizing the *strengths* and *weaknesses* internal to your business and identifying the *opportunities* and *threats* external to your busi-

ness. The business's strengths and weaknesses can be determined by writing down what the company does well and not-so-well relative to its competitors. You should think about where your company is most competitive and what is setting you apart from your competitors. Opportunities are areas that the business is not currently taking advantage of. Threats come from the environment that your business competes in. To analyze your opportunities and threats, you need to identify your major competitors, where they are trying to go, what their plan of action is, the time frame that they will use to achieve/reach their goals, their obstacles, the factors that have made them successful, and what you can emulate. Your ability to understand what is affecting the success of your competitor may help you to achieve success.

Conclusions

The fact that you conducted market research and completed a market analysis does not guarantee success as no one can predict the future. However, completing this section of your business plan may help you to avoid mistakes. Markets, consumers, costs and competition change continuously, therefore, as your business evolves, you should continuously update your market analysis. The next fact sheet in this series will help you make use of your market analysis to develop a marketing plan for your business.