

## 6.4: Marketing Research

### Learning Objectives

1. Understand and be able to explain what marketing research is all about.
2. Explain why a small business should conduct marketing research and why many small businesses do not do it.
3. Define and give examples of the two types of marketing research.
4. Understand the marketing research process.
5. Understand the costs of marketing research.

Not everyone can be like Steve Jobs of Apple. Jobs was famous for saying that he did not pay too much attention to customer research, particularly with respect to what customers say they want. Instead, he was very “adept at seeing under the surface of what customers want now; they just don’t realize it until they see it. This ability is best expressed by the German word ‘zeitgeist’—the emerging spirit of the age or mood of the moment. It probably best translates as market readiness or customer readiness. People like Jobs can see what the market is ready for before the market knows itself.”Shaun Smith, “Why Steve Jobs Doesn’t Listen to Customers,” *Customer Think*, February 8, 2010, accessed December 1, 2011, [www.customerthink.com/blog/why\\_steve\\_jobs\\_doesnt\\_listen\\_to\\_customers](http://www.customerthink.com/blog/why_steve_jobs_doesnt_listen_to_customers). Most small businesses will not find themselves in this enviable position. However, this does not mean that all small businesses take a methodical approach to studying the marketplace and their prospective as well as current consumers. Marketing research among small businesses ranges along a continuum from no research at all to the hiring of a professional research firm. Along the way, there will be both formal and informal approaches, the differences again being attributable to the size, industry, and nature of the business along with the personal predispositions of the small-business owners or managers. Nonetheless, it is important for small-business owners and managers to understand what marketing research is all about and how it can be helpful to their businesses. It is also important to understand that marketing research must take the cultures of different communities into consideration because the target market might not be the same—even in relatively close localities.

### What Is Marketing Research?

**Marketing research** is about gathering the information that is needed to make decisions about a business. As an important precursor to the development of a marketing strategy, marketing research “involves the systematic design, collection, recording, analysis, interpretation, and reporting of information pertinent to a particular marketing decision facing a company.”Dana-Nicoleta Lascu and Kenneth E. Clow, *Essentials of Marketing* (Mason, Ohio: Atomic Dog Publishing, 2007), 191. Marketing research is not a perfect science because much of it deals with people and their constantly changing feelings and behaviors—which are all influenced by countless subjective factors. What this means is that facts and opinions must be gathered in an orderly and objective way to find out what people want to buy, not just what the business wants to sell them.“Market Research Basics,” *SmallBusiness.com*, October 26, 2009, accessed December 1, 2011, [smallbusiness.com/wiki/Market\\_research\\_basics](http://smallbusiness.com/wiki/Market_research_basics). It also means that information relevant to the market, the competition, and the marketing environment should be gathered and analyzed in an orderly and objective way.

### Why Do It?

The simple truth is that a small business cannot sell products or services—at least not for long—if customers do not want to buy them. Consider the following true scenario:Susan Ward, “Do-It-Yourself Market Research—Part 1: You Need Market Research,” *About.com*, accessed December 1, 2011, [sbinfoanada.about.com/cs/marketing/a/marketresearch.htm](http://sbinfoanada.about.com/cs/marketing/a/marketresearch.htm). A local small business that specialized in underground sprinkling systems and hot tubs for years decided to start selling go-carts. Not long after they introduced them, they had a fleet of go-carts lined up outside their business with a huge “Must go; prices slashed” banner over them. This was not a surprise to anyone else. Go-carts had nothing to do with their usual products, so why would their regular customers be interested in them? Also, a quick look at the demographics of the area would have revealed that the majority of the consumers in the retirement town were elderly. There would likely be little interest in go-carts. It is clear that the business owner would have benefitted from some marketing research.

Marketing research for small business offers many benefits. For example, companies can find hidden niches, design customer experiences, build customer loyalty, identify new business opportunities, design promotional materials, select channels of distribution, find out which customers are profitable and which are not, determine what areas of the company’s website are

generating the most revenue, and identify market trends that are likely to have the greatest impact on the business. Answers can be found for the important questions that all small businesses face, such as the following: Jesse Hopps, “Market Research Best Practices,” *EvanCarmichael.com*, accessed December 1, 2011, [www.evancarmichael.com/Marketing/5604/Market-Research -Best-Practices.html](http://www.evancarmichael.com/Marketing/5604/Market-Research-Best-Practices.html); adapted from Joy Levin, “How Marketing Research Can Benefit a Small Business,” *Small Business Trends*, January 26, 2006, accessed December 1, 2011, [smallbiztrends.com/2006/01/how-marketing-research-can-benefit-a-small-business.html](http://smallbiztrends.com/2006/01/how-marketing-research-can-benefit-a-small-business.html).

- How are market trends impacting my business?
- How does our target market make buying decisions?
- What is our market share and how can we increase it?
- How does customer satisfaction with our products or services measure up to that of the competition?
- How will our existing customers respond to a new product or service?

In many ways, small businesses have a marketing research advantage over large businesses. The small business is close to its customers and is able to learn much more quickly about their buying habits, what they like, and what they do not like. However, even though “small business owners have a sense [of] their customers’ needs from years of experience...this informal information may not be timely or relevant to the current market.” “Market Research Basics,” *SmallBusiness.com*, October 26, 2009, accessed December 1, 2011, [smallbusiness.com/wiki/Market\\_research\\_basics](http://smallbusiness.com/wiki/Market_research_basics).

It therefore behooves a small business to think seriously in terms of a marketing research effort—even a very small one—that is more focused and structured. This will increase the chances that the results will be timely and will enable the small-business owner or manager “to reduce business risks, spot current and upcoming problems in the current market, identify sales opportunities, and develop plans of actions.” “Market Research Basics,” *SmallBusiness.com*, October 26, 2009, accessed December 1, 2011, [smallbusiness.com/wiki/Market\\_research\\_basics](http://smallbusiness.com/wiki/Market_research_basics). The specific nature and extent of any marketing research effort will, however, be a function of the product, the size and nature of the business, the industry, and the small-business owner or manager. There is no approach that is right for all situations and all small businesses.

## Types of Marketing Research

Small businesses can conduct primary or secondary marketing research or a combination of the two. **Primary marketing research** involves the collection of data for a specific purpose or project. Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 91. For example, asking existing customers why they purchase from the business and how they heard about it would be considered primary research. Another example would be conducting a study of specific competitors with respect to products and services offered and their price levels. These would be simple marketing research projects for a small business, either business-to-consumer (B2C) or business-to-business (B2B), and would not require the services of a professional research company. Such companies would be able to provide more sophisticated marketing research, but the cost might be too high for the many small businesses that are operating on a shoestring budget.

Data gathering techniques in primary marketing research can include observation, surveys, interviews, questionnaires, and **focus groups**. A focus group is six to ten people carefully selected by a researcher and brought together to discuss various aspects of interest at length. Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson, Prentice Hall, 2009), 93. Focus groups are not likely to be chosen by small businesses because they are costly. However, the other techniques would be well within the means of most small businesses—and each can be conducted online (except for observation), by mail, in person, or by telephone. [SurveyMonkey](http://SurveyMonkey.com) is a popular and very inexpensive online survey provider. Its available plans run from free to less than \$20 per month for unlimited questions and unlimited responses. They also provide excellent tutorials. SurveyMonkey, used by many large companies, would be an excellent choice for any small business.

**Secondary marketing research** is based on information that has already been gathered and published. Some of the information may be free—as in the case of the US Census, public library databases and collections, certain websites, company information, and some trade associations to which the company belongs—or it can be bought. Purchased sources of information (not an exhaustive list) include newspapers, Patricia Faulhaber, “Today’s Headlines Provide Market Research,” *Marketing and PR @ Suite101*, May 14, 2009, accessed December 1, 2011, [patricia-faulhaber.suite101.com/todays-headlines-provide-market-research-a117653](http://patricia-faulhaber.suite101.com/todays-headlines-provide-market-research-a117653), magazines, trade association reports, and **proprietary research reports** (i.e., reports from organizations that conduct original research and then sell it). [eMarketer](http://eMarketer.com) is a company that provides excellent marketing articles for free but also sells its more comprehensive reports. The reports are excellent, providing analysis and in-depth data that cannot be found elsewhere, but they are pricey.

If a small business was looking to introduce a new product to an entirely different market, secondary research could be conducted to find out where customer prospects live and whether the potential market is big enough to make the investment in the new product worthwhile. Joy Levin, “How Marketing Research Can Benefit a Small Business,” *Small Business Trends*, January 26, 2006, accessed December 1, 2011, [smallbiztrends.com/2006/01/how-marketing-research-can-benefit-a-small-business.html](http://smallbiztrends.com/2006/01/how-marketing-research-can-benefit-a-small-business.html). Secondary research would also be appropriate when looking for things such as economic trends, online consumer purchasing habits, and competitor identification.

Table 6.4.1: Types of Marketing Research

Primary Marketing Research	Secondary Marketing Research
Data for a specific purpose or for a specific project	Information that has already been gathered and published
Tends to be more expensive	Tends to be lower cost
Customized to meet a company’s needs	May not meet a company’s needs
Fresh, new data	Data are frequently outdated (e.g., using US 2000 census data in 2011)
Proprietary—no one else has it	Available to competitors
<b>Examples:</b> in-person surveys, customer comments, observation, and SurveyMonkey online survey	<b>Examples:</b> <i>Wall Street Journal</i> , <i>Bloomberg BusinessWeek</i> , US Census 2010, <a href="http://www.bls.gov">Bureau of Labor Statistics</a> , <a href="http://www.fedstats.gov">FedStats</a> , <a href="http://www.marketingsherpa.com">MarketingSherpa</a> , <a href="http://www.researchinfo.com">ResearchInfo</a> , and <a href="http://www.emarketer.com">eMarketer</a>

Source: Adapted from Marcella Kelly and Jim McGowen, *BUSN* (Mason, OH: South-Western, 2008), 147.

### The Marketing Research Process

Most small-business owners do marketing research every day—without being aware of it. They analyze returned items, ask former customers why they switched to another company, and look at a competitor’s prices. Formal marketing research simply makes this familiar process orderly by providing the appropriate framework. “Market Research Basics,” *SmallBusiness.com*, October 26, 2009, accessed December 1, 2011, [smallbusiness.com/wiki/Market\\_research\\_basics](http://smallbusiness.com/wiki/Market_research_basics). Effective marketing research follows the following six steps: Adapted from Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 91–103.

- 1. Define the problem and the research objectives.** Care must be taken not to define the problem too broadly or too narrowly—and not to identify a symptom as the problem. The research objectives should flow from the problem definition.
- 2. Develop the research plan.** This is a plan for gathering the needed information, part of which will include cost. Also to be determined is the following: whether primary research, secondary research, or some combination of the two will be used. The specific techniques will be identified, and a timetable will be established.
- 3. Collect the information.** This phase is typically the most expensive and the most error prone.
- 4. Analyze the information.** Analysis involves extracting meaning from the raw data. It can involve simple tabulations or very sophisticated statistical techniques. The objective is to convert the raw data into actionable information.
- 5. Present the findings.** The findings are presented to the decision maker(s). In many small businesses, the owner or the manager may conduct the research, so the findings are presented in a format that will make sense for the owner and other members of the decision-making team.
- 6. Make the decision.** The owner or manager must consider the information and decide how to act on it. One possible result is that the information gathered is not sufficient for making a decision. The problem may be a flawed marketing research process or problems obtaining access to appropriate data. The question becomes whether the situation is important enough to warrant additional research.

### What Does It Cost?

A popular approach with small-business owners is to allocate a small percentage of gross sales for the most recent year for marketing research. This usually amounts to about 2 percent for an existing business. It has been suggested, however, that as much as 10 percent of gross sales should be allocated to marketing research if the business is planning to launch a new product. “Market

Research Basics,” *SmallBusiness.com*, October 26, 2009, accessed December 1, 2011, [smallbusiness.com/wiki/Market\\_research\\_basics](http://smallbusiness.com/wiki/Market_research_basics).

There are several things that small businesses can do to keep the costs down. They can do the research on their own; work with local colleges and universities to engage business students in research projects; conduct online surveys using companies such as [SurveyMonkey](#) and [Zoomerang](#); and create an online community with forums, blogs, and chat sessions that reveal customers’ experiences with a company’s product or the perception of a company’s brand. John Tozzi, “Market Research on the Cheap,” *Bloomberg BusinessWeek*, January 9, 2008, accessed December 1, 2011, [www.BusinessWeek.com/smallbiz/content/jan2008/sb2008019\\_352779.htm](http://www.BusinessWeek.com/smallbiz/content/jan2008/sb2008019_352779.htm). The latter two options, of course, presume the existence of an e-commerce operation. Even given the inexpensive options that are available, however, hiring a professional research firm can be worth the price. The specific marketing research choice(s) made will depend, as always, on the size and the nature of the business, the industry, and the individual B2C or B2B small-business owner or manager.

## When Should Marketing Research Be Done?

There is no precise answer to this question. As a general rule, marketing research should be done when important marketing decisions must be made. It should be done at times when customers may be easily accessible (e.g., a gift shop may want to conduct research before the holiday season when customers are more likely to be thinking about buying gifts for friends and loved ones), when you are thinking about adding a new product or service to the business, or when a competitor seems to be taking away market share. The trick, though, “is not to wait very long, because your competitors can start getting the answers before you do.” Joy Levin, “How Marketing Research Can Benefit a Small Business,” *Small Business Trends*, January 26, 2006, accessed December 1, 2011, [smallbiztrends.com/2006/01/how-marketing-research-can-benefit-a-small-business.html](http://smallbiztrends.com/2006/01/how-marketing-research-can-benefit-a-small-business.html).

## Common Marketing Research Mistakes

Before deciding on a marketing research path, it is important for a small-business owner or manager to be aware of the following common pitfalls that small businesses encounter: Darrell Zahorsky, “6 Common Market Research Mistakes of Small Business,” *About.com*, accessed December 1, 2011, [sbinformation.about.com/od/marketresearch/a/marketresearch.htm](http://sbinformation.about.com/od/marketresearch/a/marketresearch.htm); Lesley Spencer Pyle, “How to Do Market Research—The Basics,” *Entrepreneur*, September 23, 2010, accessed December 1, 2011, [www.entrepreneur.com/article/217345](http://www.entrepreneur.com/article/217345).

- **Thinking the research will cost too much.** Small businesses definitely face a challenge to afford the costs of marketing research. However, marketing research costs range from free to several thousands of dollars.
- **Using only secondary research.** The published work of others is a great place to start, but it is often outdated and provides only broad knowledge. More specific knowledge can be obtained from purchasing proprietary reports, but this can be pricey, and the focus may not be quite right. Primary research should also be considered.
- **Using only web resources.** Data available on the Internet are available to everyone who can find it. It may not be fully accurate, and its accuracy may be difficult to evaluate. Deeper searches can be conducted at the local library, college campus, or small business center.
- **Surveying only the people you know.** This will not get you the most useful, accurate, and objective information. You must talk to actual customers to find out about their needs, wants, and expectations.
- **Hitting a wall.** Any research project has its ups and downs. It is easy to lose motivation and shorten the project. Persistence must be maintained because it will all come together in the end. It is important to talk to actual or potential customers early.

## KEY TAKEAWAYS

- Many small businesses do not conduct any marketing research.
- Marketing research is about gathering the information that is needed to make decisions about the business.
- Marketing research is important because businesses cannot sell products or services that people do not want to buy.
- Small businesses can conduct primary or secondary research or a combination of the two. They can also buy proprietary reports that have been prepared by other companies.
- It is common for small businesses to allocate 2 percent of their gross sales to marketing research. Several things can be done to keep marketing research costs down.
- Marketing research should be done when key decisions must be made.
- Small-business owners should be aware of several common marketing research pitfalls that small businesses encounter.

## EXERCISE

1. A small-business owner has an idea for a new product that may be a big hit with current customers and bring in new customers as well. The owner has not done much marketing research in the past, but with the lagging economy, the owner wants to be sure that the right steps are being taken. What would you advise the owner concerning the importance of marketing research and how to proceed? Be specific.

## FRANK'S BARBEQUE: A MARKETING QUESTION

One night after the restaurant had closed, Frank Rainsford sat down with his son, Robert. Frank had finished reading his son's business plan for a third time. Robert sensed that his father had some sort of reservations. "What's the matter, Dad? Didn't you like the plan?" Frank paused and said, "Bobby, from a technical standpoint I think you have done a very, very credible job, but you are right. I do have some concerns." Disappointed, Robert asked his father to lay out his concerns.

Frank told him that opening another restaurant was a huge and expensive undertaking. He knew that Robert understood the financial risks, but he was not sure that his son understood the problems associated with getting people to come to a new restaurant. Frank was straightforward and told his son, "I have been at this for thirty-plus years. It took me years to build up my client base. I really know my customers and what they like. Up until this year the only marketing I did was flyers and a few ads in the local paper and the church bulletin. How are we going to understand our customers at the new location? We are going to have to fill it up quickly if we are to pay the bills. I know I've had some good success with selling the sauces during the last few years, but remember that I'm selling them from Harry's grocery store. His customers already know me and my product. Your plans for ramping up sauce sales are great, but again, how are we going to get people to know who we are and interested enough to buy a six dollar bottle of barbecue sauce?" Frank went on to tell his son that he knew that Robert was extremely knowledgeable about marketing and the use of the Internet. He reminded Robert that he had given him a greatly enlarged marketing budget in 2010.

If you were Robert, how would you go about alleviating your father's concerns? (You may want to consult Chapter 16 and review Robert's business plan for a new restaurant.) Answer the question from a marketing perspective.

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