



Identify and Meet a Market Need

4.1 Identify Your Market

4.2 Research the Market

4.3 Know Your Competition



Find Your Target Market

Ben Cathers started his first business, an online advertising and marketing firm, when he was 12 years old. Seven years and two business ventures later, Ben secured a book deal. To what does the now 25-year-old owe his early success? Researching and fully understanding his target market—teenagers.

Like many teens, Ben passed downtime playing video games and spending time on the computer. His interest in computers led to his first money-making plan of building and hosting websites. Ben spoke to business owners and did ample research to learn how to make money through web advertising. This first business taught Ben many lessons of entrepreneurship, much of which he shared in his book.

Ben's book, *Conversations with Teen Entrepreneurs*, came about after years of speaking with fellow teens while doing research for his startups. The book covers many topics but focuses on teens starting businesses and the hardships and successes that go along with entrepreneurship. He urges teen entrepreneurs to get out and talk to as many people as possible. Ben also recommends new entrepreneurs target their own age market. "It is easier to recognize needs when you are living in that market, and if you don't have an understanding of the market, how can you convince a client you know what you are doing?" Ben said.

After Ben graduated from Boston University School of Management, he moved to New York City to be a social media consultant and to create his fourth startup business. Ben also writes a blog covering entrepreneurship, social media, and a multitude of other topics. He said blogging is a cheap forum for teens wanting to start a business or land a new job. When meeting with potential clients or a future employer, teens can reference blog posts that could give them a leg up.

Ben writes his blog because he has a passion for business and entrepreneurship. Ben encourages teens to start businesses early because even small failures can be beneficial. He believes these failures are great learning experiences for teens because it is easier to bounce back and start over when there are fewer financial obligations to worry about. Ben also advises that while entrepreneurship offers many freedoms, it often means working long hours. Passion and drive are necessary to succeed.

Photo courtesy of Ben Cathers



*Ben Cathers, author of
Conversations with Teen
Entrepreneurs*

1. Why is it important to research your target market before starting a business?
2. How can teen entrepreneurs use social media and networking to their advantage?
3. Why is passion such an important trait for successful entrepreneurs to have?

what
do you
know?

4.1

IDENTIFY YOUR MARKET

Goals

- Identify a target market by analyzing the needs of customers.
- Explain how market segmentation can help an entrepreneur analyze a target market.

Vocabulary

- target market
- market segments
- customer profile
- demographics
- psychographics
- use-based data
- geographic data

focus on small business

Who is your customer?

Roseanne and John had their own restaurant in Los Angeles, California, when their daughter was born. Deciding that they wanted a different lifestyle for their family, they began to think about relocating and starting a new restaurant in a small-town setting. They talked about the kind of restaurant they wanted to open. They decided that they would target middle- to upper-middle-class families who had a love for good food, were willing to drive up to 30 miles to get it, and were willing to pay \$10 to \$15 per meal.

Work as a Team Roseanne and John put a great amount of thought into the type of customer they wanted to attract before they began to look for a location. Why is this important?



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Think about the type of customer you want to attract.

Target Market

Entrepreneurs with exciting new ideas are sometimes so focused on their products or services that they forget about the customer. Coming up with a good idea for a business is not enough to guarantee success. Customers are the people or organizations who buy the products and services companies offer. Before establishing your new enterprise, you will have to determine who your primary customers are and whether these customers will be willing to buy your product or service. Market research is the key to finding out this information. Understanding people's wants and needs will allow you to identify business opportunities. The more you know about your customers, the better you will be at giving them what they need and want.

As an entrepreneur, you will need to estimate demand for your products or services by identifying your target customers. The **target market** includes the individuals or companies that are interested in a particular product or service and are willing and able to pay for it. Identifying your target market helps you reach the people who desire your products and services. Target customers are the customers you would most like to attract. A car dealer selling moderately priced minivans would target middle-class families with children. A car dealer offering expensive sports cars might target single people with higher incomes.

DEVELOP YOUR READING SKILLS

As you read this chapter, develop questions for each section that you can use as a study guide for the chapter.

Identify Your Target Market

To identify the target market for your product or service, you will need to answer the following questions:

1. Who is my potential market?
Are my customers individuals or companies?
2. If my customers are individuals, how old are they? How much money do they earn? Where do they live? How do they spend their time and money?
3. If my customers are companies, what industries are they in? Where are those industries located?
4. What needs or wants will my product or service satisfy?
5. How many potential customers live in the area in which I want to operate?
6. What is the demand for my products or services?
7. Where do these potential customers currently buy the products or services I want to sell them?
8. What price are they willing to pay for my products or services?
9. What can I do for my customers that other companies are not already doing for them?



Why should a clothing store identify its target customers?

As an entrepreneur, you should put yourself in your customers' shoes before you start your business. Afterwards, you should think about your customers' needs and viewpoints every day. By continually evaluating your market, you will be ready to respond to changes in communities, consumer tastes and buying habits, and competitors' offerings.

CHECKPOINT

What questions should you ask when identifying your target market?

Market Segments

Groups of customers within a large market who share common characteristics are known as **market segments**. Market research can be used by a business to identify market segments. Segmenting, or dividing your target market into several small groups, can help you develop a product or service that will meet specific customer needs and wants.

The process of market segmentation is important because most products and services appeal to only a small portion of the population. The leisure services market is a large market that includes many segments, such as outdoor adventurers, people who vacation frequently, couples who eat at restaurants, and more. Targeting the entire leisure market would not make sense. You would never be able to meet the needs of the entire market. Even the restaurant segment of the leisure services market has sub-segments. Some people eat fast food on a regular basis while others like a sit-down meal at a nice restaurant. Some people like Italian food while others prefer seafood or Chinese food.

Businesses can make decisions based on the information gathered about market segments. However, if the data are not analyzed correctly, the product may not meet the needs of the customers, or the business might ignore a segment of the market that would be very interested in the product.

SAMPLE CUSTOMER PROFILE FOR A SPORTING GOODS STORE

- Individual 23 to 52 years of age
- Participates in sports
- Wants good-quality sports equipment
- Looks for good prices
- Lives in city of Blanchester
- Average household income: \$42,000 per year

Customer Profile

A market segment is made up of people with common characteristics. The more you learn about them, the better strategy you can develop for reaching them. A very useful part of analyzing your data is the creation of a customer profile. A **customer profile** is a description of the characteristics of the person or company that is likely to purchase a product or service. A customer profile can help you understand what you need to do to meet customer demand. Customers may be profiled based on many types of data, including demographics, psychographics, use-based data, and geographic data.

By analyzing these types of data, you will be able to develop a marketing strategy that identifies those customers you can serve more effectively than your competitors can. The data can help you determine the size of your market and how many people would be willing and able to purchase your product or service. You can design your products and services, set prices, and direct promotional efforts toward those customers.

DEMOGRAPHICS Data that describe a group of people in terms of age, marital status, family size, ethnicity, gender, profession, education, and income are called **demographics**. Women business owners between the ages of 25 and 40 who earn at least \$50,000 per year would be an example of a market segment based on demographic data.

PSYCHOGRAPHICS Data that describe a group of people in terms of their tastes, opinions, personality traits, and lifestyle habits are called **psychographics**. People who prefer to live in a downtown setting and whose musical preference is jazz would be an example of a market segment based on psychographic data.

USE-BASED DATA Data that help you determine how often potential customers use a particular service are called **use-based data**. If you were starting a travel agency, you would want to know how often your potential customers travel.

GEOGRAPHIC DATA Data that help you determine where your potential customers live and how far they will travel to do business with you are called **geographic data**. If you were thinking of opening a coffee shop, it would be important for you to know that people are not willing to drive more than one mile for coffee.

what went wrong?

PRICE WAR

U-Corp was the first company in the computer industry to offer removable hard disk drives for personal computers. For years, U-Corp had a unique position in the industry and had little direct competition. Eventually, the company was making \$300 million in annual revenue.

U-Corp's first competition came from A-Corp, which offered a product similar in price and

performance. A-Corp spent heavily on advertising and ran frequent reduced-price promotions. As a result, A-Corp took a large amount of business from U-Corp. U-Corp decided to try to take back the market it had lost to A-Corp and launched a multimillion-dollar marketing campaign aimed at its target market.

The two companies went head to head, selling disk drives at lower and lower prices. However, consumers do not generally need to buy multiple hard drives because of their large storage capacity. Only one company could win, and it was A-Corp. In less than two years, U-Corp suffered losses, and A-Corp bought it out.

THINK CRITICALLY

1. What was U-Corp's major disadvantage in competing with A-Corp?
2. What did each company fail to realize about its customers?
3. How might the price war for removable hard drives have been avoided?



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Consider other strategies before engaging in a price war.

CHECKPOINT

Name four types of customer data that may be analyzed in developing a customer profile.

4.1

ASSESSMENT

THINK ABOUT IT

1. Why is it so important to identify your target market?
2. How are market segments useful to an entrepreneur?
3. You are thinking about offering golf lessons in your town. What types of data (demographics, psychographics, use-based, or geographic) would you collect to create a customer profile?

MAKE ACADEMIC CONNECTIONS

4. **MATH** Marcel wants to open a car wash after graduating from high school. For several days, he observed the cars being washed at a local car wash and recorded the information below.

Day 1	Day 2	Day 3	Day 4	Day 5	Day 6
50 cars	45 cars	48 cars	26 cars	47 cars	55 cars

What is the average number of cars washed each day? If the car wash were open only five days a week, how many cars might be washed per year? (Hint: There are 52 weeks in a year.)

5. **GEOGRAPHY** Think of a business you would like to open. Obtain a map of the area where you would like to locate the business. Mark the areas on the map that represent the farthest distance you believe customers would be willing to travel to do business with you. Draw a circle that encompasses the points where your customers live.
6. **COMMUNICATION** Interview a business owner. Ask the owner the nine questions listed in the lesson about identifying a business's target market. Write a report based on what you find out about the owner's target market.
7. **MARKETING** Think about a television station or network that has a particular focus (example: the Food Network or the History Channel). Identify several characteristics of a market segment that enjoys the shows broadcast on the station or network. Use the characteristics to create a customer profile for the television network.

Teamwork



Working with team members, look through magazines and newspapers for an advertisement of a new product. Based on the type of publication and the material contained in the advertisement, answer the nine questions listed in the lesson about identifying a target market. Can you determine who the target market is for the product?

RESEARCH THE MARKET

4.2

Goals

- Explain the role of market research.
- Identify the six steps involved in market research.
- Explain the role technology plays in marketing research.

Vocabulary

- market research
- primary data
- survey
- focus group
- secondary data
- customer relationship management

Get to know your market.

Roseanne and John decided that they would like to locate their business in South Carolina close to the areas where they grew up. They knew that it would be important for them to research the market in that area to be sure that there was a market for the type of restaurant they wanted to open. They decided to interview groups of potential customers to gather their thoughts and opinions. They also developed a survey and hired some local high school students to call residents in the community to collect more data. Finally, they explored how they could utilize technology to conduct market research.



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Interviews are just one way to gather market research.

Work as a Team Do you think that Roseanne and John are using good methods to gather data? Can you suggest any other ways they can find out what their potential customers think about the business idea?

Role of Market Research

For your business to succeed, you need to identify potential markets, analyze demand, and determine how much customers are willing to pay for your products or services. To collect this information, you will perform market research. **Market research** is a system for collecting, recording, and analyzing information about customers, competitors, products, and services. Based on the findings of market research, a business will be able to determine which marketing strategies will be most effective and most profitable. Spreadsheets and databases are used for collecting and analyzing market research data. Market research has its limits because it can be very expensive and time-consuming, but it is worthwhile when major decisions must be made. You will draw on primary data and secondary data to help you

focus
on small
business

identify ways in which you can meet customer needs. Market research can also help you forecast sales and make other business decisions.

Primary Data

Most market researchers collect primary data. Information collected for the very first time to fit a specific purpose is **primary data**. A researcher collects primary data to help identify and understand the target market. There are a few different ways to collect primary data.

SURVEY The most common type of primary market research is a questionnaire, or survey. A **survey** is a list of questions you would like to ask your customers to find out demographic and psychographic information. A survey can be conducted by mail, over the phone, on the Internet, or in person.

Creating a good survey is important. Surveys should be kept to a page in length when read over the phone or mailed to respondents. Longer surveys can be used if an interview is face to face. Questions should be clear and easy to answer, and only the most important questions should be asked.

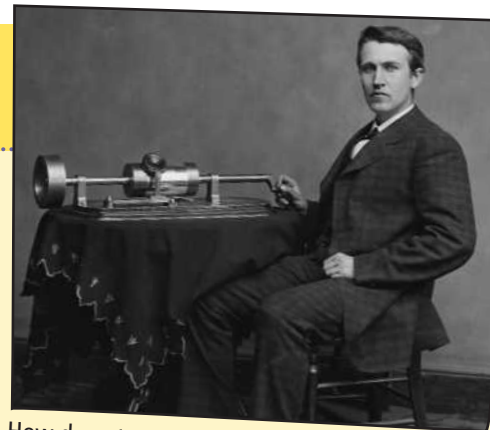
famous entrepreneur

THOMAS A. EDISON Could you do your homework at night if there was no light? Thanks to Thomas Edison, you can do your homework late at night! Thomas Edison is considered to be the greatest inventor in American history.

Edison showed entrepreneurial characteristics at an early age. At the age of 12, he talked his parents into letting him go to work selling newspapers, snacks, and candy on the local railroad. Then he started an entirely separate business selling fruits and vegetables.

When Edison was 14, the pre-Civil War debates between Lincoln and Douglas were taking place. He used his access to the associated news releases that were being teletyped into the railroad station each day and published them in his own newspaper. Focusing on newsworthy "scoops," he quickly had more than 300 commuters subscribing to his paper, *The Weekly Herald*.

Edison turned on the lights for all of us with his invention of the electric light bulb in 1879. As a young inventor with a curiosity about



Brady-Handy Photograph Collection (Library of Congress)

How do entrepreneurs change the way we live?

everything, he learned to invent only those things that people wanted. As one of the original founders of the General Electric Company, he tried to develop products that would work under ordinary conditions, would not easily malfunction, and could be repaired easily. Known as "The Wizard of Menlo Park," which was the home of Edison's research laboratory, Thomas Edison truly changed the world we live in!

THINK CRITICALLY

Why do you think it was important for Thomas Edison to invent items that people wanted? Do you think all inventors can become successful entrepreneurs?

Many retail stores collect primary data through the use of scanners. The salesperson scans the universal product code (UPC) on each item purchased. The storeowner can then determine the best- and worst-selling items and adjust inventory accordingly.

OBSERVATION Market research can also involve observation. If you are considering opening a juice bar in a shopping mall, you might want to see how many customers you could attract. You could go to the mall and count the number of people purchasing drinks at various food outlets. An entrepreneur interested in starting a motorcycle repair shop might count the number of motorcycles at a busy intersection.

FOCUS GROUPS Another way to find out about the market is by conducting interviews with small groups of people. A **focus group** is an in-depth interview with a group of target customers who provide valuable ideas on products or services. You can ask the same kinds of questions in a focus group that you would ask in a survey, but the group setting allows for more discussion and interaction. Focus groups usually are led by a moderator, who asks questions about buying habits, likes and dislikes, and interest in particular products and services. The focus group session is recorded so that the comments can be reviewed carefully after the session.

DISADVANTAGES OF PRIMARY DATA While primary data can provide the most up-to-date and useful information, collecting it can be time-consuming and more expensive than gathering secondary data. As an entrepreneur, you will need to determine how much primary and secondary market research data you need to collect.

Secondary Data

Entrepreneurs also research their target markets by using secondary data. **Secondary data** are found in already-published sources. Data on population, family size, household income, economic trends, industry forecasts, and other information can be found in secondary data resources. Places to find secondary data include the following:

1. Publications issued by government and community organizations, such as the U.S. Census Bureau, the Small Business Administration, and the Chamber of Commerce
2. Books about specific industries
3. Information on websites for government and businesses
4. Books about other entrepreneurs who set up similar businesses
5. Trade magazines and journals
6. Newspaper articles and statistics

Kisha Nichols wanted to expand her family-owned chain of retail shoe stores. She decided to perform some secondary data research. She visited the local Chamber of Commerce website, which provided



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Why is secondary data an important part of market research?

her with population demographics for her city and county and industry forecasts for local communities. This information allowed Kisha to identify the largest markets as well as any growing markets. Magazines provided information on the average income of retail shoe store owners in her state. Newspaper articles gave Kisha psychographic data on the lifestyles of people in her area. Most of them worked in professional office settings, which meant they had a need for comfortable dress shoes. The secondary data gave Kisha a good idea of which community might provide the best prospects.

CHECKPOINT

What types of data can be collected through market research?

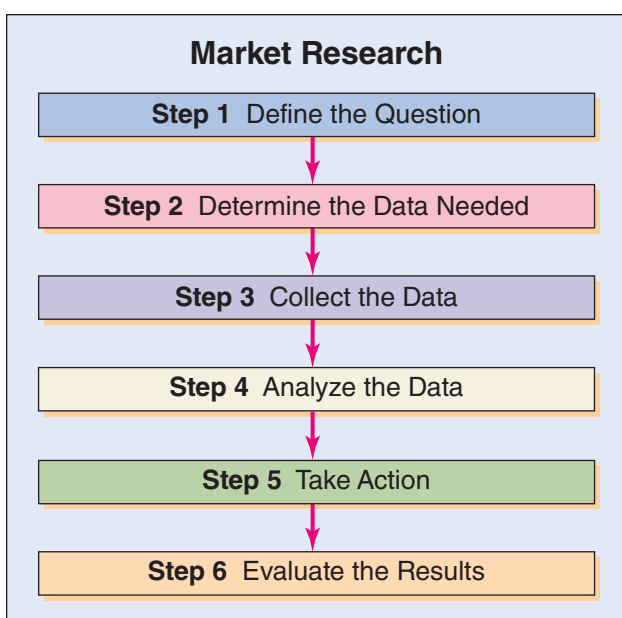
Six Steps of Market Research

Collecting primary data can be time-consuming and expensive, but it is extremely valuable. It will tell you exactly what you want to know and uncover information you may not find through secondary sources. Conducting primary market research involves six steps.

1. Define the Question

In the first step in the market research process, you need to define exactly what you need to know. Entrepreneurs have many concerns and questions about the businesses they are planning. By determining what they need to know, they are defining the question that will be the focus of their research.

Maggie Blandin is thinking about starting a dog-walking service. Before she invests in her business, Maggie needs to determine who would be most likely to use her service (her target customers).



2. Determine the Data Needed

Once you have defined the market research question, you are ready to determine what data you need to collect to provide the answer to your question. Entrepreneurs need to be sure that the data they collect will be helpful.

It would not be helpful for Maggie to know how many families live in the area where she wants to open her business. She needs to know how many people living in the area are dog owners who lack the time to walk their dogs.

3. Collect the Data

Before you begin collecting data, you need to decide how you will go about gathering the data. Should you use a survey? Should you use an



observation method? Is a focus group appropriate? The method you use will depend on what type of information you want to gather. For example, you can find out people's opinions in a survey or focus group but not by observation. You should perform some secondary market research first to familiarize yourself with your market. Demographic and psychographic data, as well as information on economic trends and industry forecasts, will help you determine what kind of primary data research to perform. You can then choose the best research method for the information you want to gather.

If you use observation to do your research, you need to determine where and when to get the best information. If a focus group is needed, you should think about what kinds of individuals to include and what questions to ask them. If you choose a survey, think carefully about how long it should be, what questions it should include, how it should be administered, and how many people you should survey.

Maggie decides that a survey is the best way for her to find answers about customer preferences for a dog-walking service. Through her secondary data research, Maggie learned that 60 percent of the households in her area own one or more dogs and that the average annual household income is \$75,000. Most households have one or more adults working in a professional field. She also found that dog ownership is on the rise in her area. Using this information, Maggie put together the survey shown on the next page, asking about the lifestyles, opinions, and choices of dog owners.

4. Analyze the Data

Once you have collected all your primary and secondary data, you will need to analyze and interpret the information thoroughly. The data may be used not only to find out about your potential customers but also to forecast sales. The analysis should be in a written format so you can refer to it later.

Through her secondary data research, Maggie found that 2,500 dogs live in her area. From her primary data research, she found that 30 percent of dog owners in her area would pay \$20 to have their dogs walked for 30 minutes. Many would pay to have them walked two or three times a week. Maggie determines that she could easily have 750 dogs to walk each week.

5. Take Action

Once you have analyzed and interpreted your data, you will need to determine how to use the data to make a decision. You will develop a plan of action based on the information you found in your market research.

Groups of customers within a large market who share common characteristics are known as market segments. Access www.cengage.com/school/entrepreneurship/ideas and click on the link for Chapter 4. The *You Are Where You Live* feature describes every U.S. neighborhood in terms of lifestyle types. Click on the ZIP Code Look-Up tab and choose the PRIZM NE system. Enter your own ZIP code. What results did you find? In which lifestyle type (if any) do you think you and your family fit? Now choose the ConneXions system. Do the results differ from those found under the PRIZM NE system? Explain. Which system do you think more accurately describes your neighborhood?

www.cengage.com/school/entrepreneurship/ideas

MARKET RESEARCH SURVEY

Thank you for participating in this market research survey. We appreciate your assistance in helping us identify the needs of pet owners in our community.

PLEASE CHECK THE BOX THAT BEST DESCRIBES YOUR SITUATION.

Age: UNDER 18 19-30 31-40 41-50 51-65 OVER 65

Gender: MALE FEMALE

Number of pets: 0 1 2 3 4 OR MORE

Kinds of pets: DOG CAT FISH BIRD OTHER (PLEASE SPECIFY)

IF YOU OWN A DOG, PLEASE ANSWER ALL OF THE FOLLOWING QUESTIONS.

How often do you walk your dog?

EVERY DAY A FEW TIMES A WEEK ONLY ON THE WEEKENDS NEVER

Would you be willing to pay someone you trusted to take your dog for walks?

YES POSSIBLY NO

If you would be willing to pay someone to walk your dog, how many times a week would you utilize this service?

EVERY DAY 2-3 TIMES A WEEK ONLY ON THE WEEKENDS

How much would you be willing to pay to have your dog(s) walked for 30 minutes?

\$10 \$15 \$20 \$25 I WOULD NOT PAY TO HAVE MY DOG WALKED

How often do you travel out of town?

ONCE A YEAR 2-3 TIMES A YEAR SEVERAL TIMES A YEAR NEVER

Who takes care of your dog when you are out of town?

KENNEL FRIEND NEIGHBOR OTHER

Would you be interested in having someone you trust take care of your pets while you are away?

YES POSSIBLY NO



Why should entrepreneurs evaluate the actions they take?

Maggie Blandin’s market research has helped her conclude that her idea for a dog-walking service is profitable. From her market research, she has created a target customer profile of people aged 31 to 50 who travel often, work long hours, and earn \$50,000 to \$100,000 a year. She also knows the amount of money her target customers are willing to pay for her service and how much income she can expect to make.

In her first effort to get customers, Maggie plans to create a flyer aimed at her target market, which she will distribute in neighborhoods and veterinarian offices. She also plans to distribute the flyer downtown and in other business areas where many of her target customers work.

6. Evaluate the Results

Evaluation is the last step in the market research process. It is not enough just to develop a plan of action. Entrepreneurs must regularly evaluate the actions they take as a result of the plan.

Once Maggie has developed and distributed the flyer, she will need to evaluate the results. If she feels that she is getting a good response from her target market, she can assume that her plan of action is effective. However, if she is not getting a good response, then she will need to revise her plan of action.

CHECKPOINT

What are the six steps of market research?

Technology-Driven Marketing

Customer relationship management (CRM) is the goal of a new marketing trend that focuses on understanding customers as individuals instead of as part of a group. It is a business strategy designed to increase profitability and customer satisfaction. CRM uses technology to track customer interactions and to organize business processes in a way that will produce customer-satisfying behaviors.

Interactions with Customers

In a CRM system, companies identify customer relationships, including information on who customers are, where they are located, and what products and services they buy. This is done by collecting data on all types of interactions a customer has with the company. These can include phone, web-based, or salesperson contacts. Other *touch points* where a customer might have contact with the company include a product or service registration, a request for product information, the return of a completed warranty card, or a customer talking with delivery personnel and product installers.

Many companies are now using websites as a touch point for customers to communicate with them. On the Web, companies provide forms that customers can complete to purchase products, make reservations, enter product and service preferences, and provide customer feedback. This information is transmitted through *electronic data interchange (EDI)*, which is the movement of data between locations in a structured, computer-retrievable format. The information is then used to define market segments, adjust marketing strategies, develop new products, and improve customer relationships.

Customer Database

Large amounts of data can be obtained from the interactions between a company and its customers. A business must decide what types of data it wants to acquire and how it can use the data to enhance customer relationships. Data collected can include customer contact information and data pertaining to the customer's current relationship with the company—past purchase history, quantity and frequency of purchases, average amount spent on purchases, and reactions to promotional activities.

The data are stored in a *data warehouse*, which is a large computerized database containing all of the information collected in the CRM process. Data stored in the data warehouse by one department within the company are available to other departments or to anyone else who has access to the database.



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How can technology be used in the market research process?

Data mining is used to find hidden patterns and relationships in the customer data stored in the data warehouse. The value of data mining is the ability of a company to transform individual bits of data into usable information that marketers need to develop successful marketing strategies. Using data mining, marketers can search the data warehouse to find relevant data, categorize significant characteristics, and develop customer profiles. Once the most profitable customers and prospects are identified, marketing strategies that will appeal to them are created.

CHECKPOINT

What is the goal of CRM?

4.2 ASSESSMENT

THINK ABOUT IT

1. Why do entrepreneurs need to conduct market research?
2. What are the limitations of market research?
3. What is the difference between primary and secondary data?
4. Why is it important to define the question you want your market research to answer?
5. How is data mining used?

MAKE ACADEMIC CONNECTIONS

6. **MANAGEMENT** Your family-owned business processes and sells orange juice to food distributors. In order to grow, the business needs to expand its product line. Describe how you would apply the six market research steps to help determine an additional product your business could offer.
7. **PROBLEM SOLVING** It is important to evaluate the effectiveness of a survey. Access www.cengage.com/school/entrepreneurship/ideas. Click on *Activities* and open the file *Market Research Evaluation*. Print a copy and complete the activity.
8. **TECHNOLOGY** Choose a company that you are familiar with. On the Internet, research the company's website and make a list of the different ways the company collects customer data through its website.



Teamwork



Working with team members, come up with a new product that you think will be very useful for students in your school. Develop a survey for potential consumers of this product to gauge their interest. Have students from your school complete the survey. Tabulate the results and determine if the product is a good idea.

4.3

KNOW YOUR COMPETITION

Goals

- Explain the importance of knowing and understanding your competition.
- Prepare a competitive analysis.
- Describe strategies for maintaining customer loyalty.

Vocabulary

- direct competition
- indirect competition
- competitive analysis

focus on small business

Who is your competition?

Roseanne and John needed to find out who their competition would be for their new restaurant. They drove 30 minutes in all directions from the location they chose for their restaurant and made a list of all the restaurants they saw on their trips. They also obtained menus of the restaurants to see what type of food they offered. They even ate at several of the restaurants and observed the restaurants' strengths and weaknesses. Roseanne and John determined that their restaurant would offer a different type of food from any of their competition and that the customers in their target market would be willing to try a new restaurant.



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It is beneficial to check out the competition in person.

Work as a Team

Roseanne and John have determined that there is a market for their restaurant. How can they differentiate their restaurant from competing restaurants? How can they keep customers coming back?

Impact of Competition

The U.S. economic system is based on private property, freedom of choice, profit, and competition. Because consumers are free to buy whatever they want from whomever they want, companies compete for their business. Most new businesses face *competitors*—companies offering similar or identical products and services to the same group of target customers. As the owner of a new business, you will have to persuade customers to buy from you instead of from your competitors. You must always watch the competition and be

sure that you are offering products that are of equal or better quality at the same or lower prices.

When personal computers first came on the market, Apple computers were the biggest sellers. Then IBM developed a personal computer, and soon there were many other manufacturers of personal computers. Today, customers have many choices for personal computers. All of the computer manufacturers work hard to persuade customers to buy their product.



How can similar businesses compete for customers?

Understand the Competition

Knowing about your competition will also help you define your target market. Businesses typically enter into areas where there is competition. To survive, they have to identify some special customer need or want that is not being met. Customers may be happy with the products or services, but they may be unhappy with the prices. Customers might be dissatisfied with the quality of a product or service and would be willing to pay more for better quality. In either case, a customer need is going unmet by a competitor, indicating a possible opportunity for an entrepreneur.

Know the Types of Competition

Competitors may be categorized as either direct or indirect competition. You will need to find ways to identify and differentiate yourself from both types of competition.

DIRECT COMPETITION A business that makes most of its money selling the same or similar products or services to the same market as other businesses is **direct competition**. Secondary data resources can give you information on your direct competition. Your direct competitors may be in the same geographic area as your business. The telephone directory or an Internet search will help you find the number and locations of competing businesses. Your local Chamber of Commerce will also have information on competitors in your business field. Observation methods can help you learn more about your direct competitors. If you start a retail business, you can visit all of the malls, shopping centers, and retail outlets in your area.

For some businesses, direct competitors may be located far away. Carmen Quinterro publishes a travel newsletter about Ireland. Carmen's target customers live all over the United States. Her competitors include five other newsletters about Ireland as well as several travel websites. Although Carmen's competitors are located far from her, they compete for the same target customers.



Photodisc/Getty Images

Why do businesses need to be concerned about indirect competition?

INDIRECT COMPETITION A business that makes only a small amount of money selling the same or similar products and services to the same market as other businesses is **indirect competition**. Locating your indirect competition is more difficult than finding direct competitors. You should first think of all of the possible businesses that can compete with you indirectly. A large department store may stock some of the most popular products carried by a privately owned specialty shop. The department store offers many other lines of merchandise as well. It makes only a small amount of money on the same items that the specialty shop offers. This makes the department store an indirect competitor to the specialty shop.

LARGE RETAILERS When a large retailer enters a community, it can be a source of direct and indirect competition for many other businesses. Large retailers like Walmart bring lower prices and jobs to a community, but many small businesses find it difficult to compete with them. Some of the smaller, locally owned retailers often are forced out of business. Some of the reasons that it is difficult for entrepreneurs to compete with large retailers include the following:

1. **Large retailers usually are able to keep larger quantities of products in stock.** They can purchase inventory in bigger quantities because they have more revenue and larger storage areas. Bigger orders result in volume discounts, and the savings can be passed to consumers in the form of lower prices.
2. **Large retail chains do not rely on a single product line.** If one product line does poorly, a large retail store does not go out of business because it has other successful product lines. Small businesses have risks associated with having only one product line. If its product falls out of favor with consumers, it has no other product lines to make up the difference.
3. **Large companies usually have more resources to devote to advertising.** A larger company makes more revenue and can hire advertising professionals to create effective advertising to attract more customers.

CHECKPOINT

Why is it important to understand the competition your business faces?

Competitive Analysis

Identifying and examining the characteristics of a competing firm is called a **competitive analysis**. Analyzing the strengths and weaknesses of your competition will help you identify opportunities and threats against your business. Follow these steps to begin your competitive analysis:

1. **Make a list of your competitors.** Using the Internet and *The Yellow Pages* and driving through the area in which you plan to locate your business are good ways to identify your competition. You can also talk to potential customers to find out with whom they are currently doing business. Review trade magazines and newspapers to see who is advertising the product or service you plan to offer.
2. **Summarize the products and prices offered by your competitors.** Investigate the products or services your competition offers for sale. How are they different from yours? Examine the price ranges of your competitors and determine how they compare to what you plan to charge. Are your prices higher or lower?
3. **List each competitor's strengths and weaknesses.** What does the competitor do that no one else does, or what does it do better than everyone else? Where are your competitors located? Determine if their location is better, worse, or about the same as the planned location for your business. Compare your competitors' facilities to the planned facility for your business. Are their facilities better, worse, or about the same as yours? What attracts customers to your competitors' facilities?
4. **Find out the strategies and objectives of your competitors.** A copy of each competitor's annual report would have this information. In addition, looking at competitors' websites or advertising can give you clues about their strategies and objectives.
5. **Determine the opportunities in the market.** Look at your competitors' weaknesses. How can you use these weaknesses to your advantage? Also, determine if there is an increase in demand for the product or service you plan to offer. What are the industry forecasts? If demand is predicted to increase, more opportunities exist for those wanting to enter the market.
6. **Identify threats to your business from the competition.** What would make a customer choose the competition over you? Examine your competitors' strengths. How will you compete with these strengths?

Interjit Singh wants to start a premier car wash in an expensive suburb of Washington, D.C. He does a competitive analysis as shown on the next page. He researches his direct and indirect competition. He finds that Royal Hand Wash is able to charge twice the price of the other competitors even though its location is not the best. Royal Hand Wash guarantees nonscratch car washes and waxes done by hand, not machines. Because Interjit's business will also offer car washes, waxes, and detailing done by hand, Royal Hand Wash is the

ANALYSIS OF COMPETITORS

Competitor	Price	Location	Facility	Strength	Weakness	Strategy
Standard Gas	\$6.00	Excellent	Good	Excellent location	Car wash not easily accessible	Target a different market
Lakeland Car Wash	\$5.50	Fair	Good	Low price	Location	Target a different market
Ray's Car Wash	\$5.00	Good	Fair	Low price	Facility	Target a different market
Royal Hand Wash	\$11.50	Fair	Excellent	Excellent facility	Location, high price	Offer lower prices, better service, more convenient location

direct competition. All other car wash businesses, including gas stations with automatic car wash machines, are his indirect competition. Interjit considers Royal Hand Wash's location and prices to be two of its biggest weaknesses, which open up opportunities for Interjit. He plans to capitalize on these opportunities by choosing a prime location for his car wash and charging lower prices. The biggest threat posed by Royal Hand Wash is its excellent facility. Interjit believes that having a convenient location and offering better service will stamp out this threat.

CHECKPOINT

What is the purpose of a competitive analysis?

Maintain Customer Loyalty

Getting customers to buy your products and services instead of your competitors' is only one step in running a successful business.

Once you get the customers, you must make sure they remain loyal to you and keep coming back.

Listen and Respond to Feedback

To retain customers, you will need to continually ask customers for their opinions about your business and respond to their feedback. Businesses that ignore customer concerns will not stay in business long. Businesses stay in touch with their customers' needs in different ways. Some businesses may call customers after sales are made to ensure they are satisfied with their purchase. Many companies have a



How can a business use surveys to help maintain customer loyalty?

customer feedback box where customers can put complaints or positive comments about the business. You can also design a survey for your customers to complete.

Jason Rose's business, the Metropolitan Athletic Club, closed because of his failure to respond to customer feedback. Club members had repeatedly complained about the lack of cleanliness in the locker rooms and the lack of available weight machines during peak hours. Jason ignored his customers' complaints, believing that the excellent location and low monthly membership fee would ensure his success. Jason learned from his mistake. When he opened his next athletic club, he immediately tried to find out what customers wanted by conducting a market research study. His study revealed, among other things, that he should offer more aerobics classes and put high-speed hair dryers in the locker rooms. Due to his focus on customer satisfaction, Jason's club is doing very well and attracting new members all the time.

Other Strategies for Maintaining Loyalty

To maintain customer loyalty, businesses use many strategies. The main purpose of these strategies is to keep customers happy so that they will return to the business. The strategies also give the business a means for gathering data about their customers and their shopping and spending habits that can help in future decision making. Some of the most basic customer loyalty strategies businesses use include the following:

- Superior service
- More convenient hours than other businesses
- Easy return policies
- Store-specific credit cards
- Personal notes or cards for birthdays or as a way to say thanks for the business
- Frequent-buyer programs

Frequent-buyer programs have become popular among businesses. Customers must join by filling out a registration form that asks for personal information, such as your name, address, phone number, and e-mail address. Customers are then given a card, which they can use each time they make a purchase. The cashier scans the magnetic strip or barcode on the card to keep a running total of the purchases made by the customer. Rewards are given to the customer based on the frequency of purchases. The rewards help attract customers to the business. In addition, the business can collect information electronically about the buying habits of its customers, helping it know what items to stock.

BE YOUR OWN BOSS

You opened The Sweet Shop, a candy and ice cream store, on the grounds of a beach resort hotel. You get a steady stream of new customers because guests from the hotel visit your shop. However, you want to attract local residents from the community to your business to help grow a customer base year round. You decide that a frequent-buyer program is one way to get customers to visit and return to your business. What type of frequent-buyer program would be good for The Sweet Shop? Design a flyer that would introduce the program to customers. Also, design a card that you would give customers to identify them as frequent buyers.

Kathleen McGuire, the owner of Flower Markets, encourages shoppers to buy all of their flowers from her garden store by issuing them a frequent-buyer card with a magnetic strip that stores customers' information on it. Every time a customer makes a purchase, she scans the card to record the purchase. When customers have made purchases totaling \$200, she offers them a 25 percent discount on their next order. Kathleen also uses the purchasing data she collects from the cards to notify customers about sales on items they frequently purchase.

CHECKPOINT

What are some strategies for maintaining customer loyalty?

4.3

ASSESSMENT

THINK ABOUT IT

1. Why should entrepreneurs analyze both direct and indirect competitors?
2. Why is a competitive analysis important to an entrepreneur?
3. Why is customer feedback considered a type of market research? Is this type of market research more or less valuable than other types of research you collect? Explain your answer.

MAKE ACADEMIC CONNECTIONS

4. **MARKETING** Devise a plan to maintain customer loyalty for a hair salon. Create an advertisement to let your customers know about this plan.
5. **COMMUNICATION** Shontel Washington just started a website design company. She would like feedback from the people who have used her services. Develop a short survey that would help Shontel learn more about her customers' feelings toward her business. How can she use the data collected to beat her competition?
6. **TECHNOLOGY** Using the car wash data shown on page 114, enter the prices into a spreadsheet. Use the spreadsheet to create a bar graph that will help Interjit Singh analyze the data.

Teamwork



Working with team members, choose a successful business in your area. Then choose three competing businesses. Access www.cengage.com/school/entrepreneurship/ideas. Click on *Activities* and open the file *Competitive Analysis*. Print a copy and complete the activity by analyzing each business using the six steps listed in this lesson.





Sharpen Your **21st CENTURY** ENTREPRENEURIAL SKILLS

Use Spreadsheets to Analyze Data

Spreadsheets are a powerful tool for analyzing, sharing, and managing numerical data. Entrepreneurs can use spreadsheets to analyze market research, prepare budgets, measure performance, and create financial statements. One of the most valuable uses of spreadsheets is creating charts and graphs. Charts and graphs can improve decision making by presenting data in an easy-to-read, understandable format. Line graphs, bar charts, and pie charts are among the most commonly used visual aids.

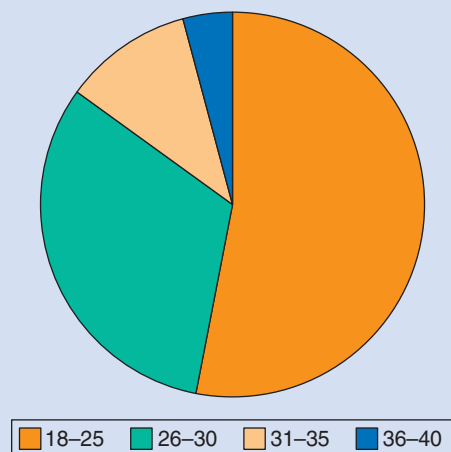
Spreadsheets are especially useful in analyzing market research results. Gena has decided that she wants to open a coffee shop in her

community. She wants to determine the age of her target market. She surveys 25 people in each of the following age groups: 18–25, 26–30, 31–35, and 36–40. She enters her survey results into a spreadsheet and creates the pie chart shown below. The pie chart clearly shows that consumers in the 18–25 age group are more likely to buy coffee on their way to work.

Try It Out

Maggie Blandin conducted research for her dog-walking business by surveying 2,500 dog owners. She asked what price owners would be willing to pay for a dog-walking service. She collected the following data:

Consumers Who Buy Coffee on the Way to Work



Number of People	Price
500	\$10
250	\$15
750	\$20
500	\$25
500	\$ 0 (not interested)

Enter the data into a spreadsheet and create a pie chart to help Maggie determine the price she should charge for her dog-walking service. Experiment with the different kinds of charts and graphs you can create.

SUMMARY

4.1 Identify Your Market

1. Before starting a new business, you must determine who your target market is and whether your target customers will be willing to buy your product or service. Market research is key to finding out this information.
2. You should develop a customer profile and decide which segment(s) of the market to target. Markets may be segmented based on many factors, including demographics, psychographics, use-based data, and geographic data.

4.2 Research the Market

3. Market research is important because it helps you learn about your customers and your competition. Primary data are collected for the very first time to fit a specific purpose. Secondary data are found in already-published sources.
4. The six steps of market research are: (1) define the question, (2) determine the data needed, (3) collect the data, (4) analyze the data, (5) take action, and (6) evaluate results.
5. Customer relationship management (CRM) focuses on understanding customers as individuals instead of as a group. CRM uses technology to track customer interactions.

4.3 Know Your Competition

6. All businesses have both direct and indirect competition. Direct competition comes from a business that makes most of its money selling the same or similar products and services to the same market. Indirect competition comes from a business that makes only a small amount of money selling the same or similar products to the same market.
7. Creating a competitive analysis involves the following steps: (1) make a list of competitors, (2) summarize products and prices offered by competitors, (3) list each competitor's strengths and weaknesses, (4) find out strategies and objectives of competitors, (5) determine the opportunities in the market, and (6) identify threats to your business from the competition.
8. There are many ways to maintain customer loyalty. You should ask for and respond to customer feedback. Offering superior service and frequent-buyer programs also promotes customer loyalty.

What
do you
know
now?

Read *Ideas in Action* on page 95 again. Then answer the questions a second time. Have your responses changed? If so, how have they changed?

VOCABULARY BUILDER

Match each statement with the term that best defines it. Some terms may not be used.

1. A description of the characteristics of the person or company that is likely to purchase a product or service
2. Data that describe a group of people in terms of their age, marital status, family size, ethnicity, gender, profession, education, and income
3. An in-depth interview with a group of target customers who provide valuable ideas on products or services
4. Information collected for the first time to fit a specific purpose
5. Marketing trend that focuses on understanding customers as individuals instead of as part of a group
6. Data that describe a group of people in terms of their tastes, opinions, personality traits, and lifestyle habits
7. Data found in already-published sources
8. A business that makes most of its money selling the same or similar products or services to the same market as other businesses

- a. competitive analysis
- b. customer profile
- c. customer relationship management
- d. demographics
- e. direct competition
- f. focus group
- g. geographic data
- h. indirect competition
- i. market research
- j. market segments
- k. primary data
- l. psychographics
- m. secondary data
- n. survey
- o. target market
- p. use-based data

REVIEW YOUR KNOWLEDGE

9. Which of the following is *not* a reason that entrepreneurs need to know who their customers are?
 - a. customers are a business's most important asset
 - b. companies cannot remain in business without customers
 - c. customers have no influence on products or services offered
 - d. knowing who your customers are can help you estimate demand for products and services
10. To identify your target market, you need to know
 - a. who your customers are
 - b. how old your customers are
 - c. where your potential customers currently shop
 - d. all of the above
11. Data that help you determine where your potential customers live and how far they will travel to do business with you are
 - a. demographics
 - b. psychographics
 - c. use-based data
 - d. geographic data
12. Which of the following is *not* an example of primary data?
 - a. a survey
 - b. statistics from a government website
 - c. observation of customer behavior
 - d. all of the above are examples of primary data
13. Sources of secondary data include all of the following *except*
 - a. customer feedback from a survey
 - b. publications issued by government and community organizations
 - c. trade magazines and websites
 - d. newspaper articles
14. **True or False** Two disadvantages of collecting primary data are the costs and time involved.

15. It is difficult for small businesses to compete with large retailers because
 - a. large retailers are able to order and stock products in larger quantities
 - b. large retail chains don't rely on a single product line
 - c. large companies have more resources to devote to advertising
 - d. all of the above
16. Which of the following is *not* a step involved when preparing a competitive analysis?
 - a. make a list of all competitors
 - b. create a customer profile
 - c. list your competitors' strengths and weaknesses
 - d. summarize products and prices offered by competitors
17. **True or False** Businesses do not need to identify their target market in order to succeed.
18. Which of the following is *not* a good way to get customer feedback?
 - a. check with your competition
 - b. call customers the day after they make a purchase
 - c. use a customer feedback box
 - d. have customers complete a survey after shopping with you
19. Which of the following is a strategy for maintaining customer loyalty?
 - a. keeping standard business hours
 - b. adhering to strict return policies
 - c. offering superior service
 - d. none of the above
20. **True or False** Longer surveys are always better because you can collect more information.

APPLY WHAT YOU LEARNED

21. Set up an interview with a local entrepreneur to find out how he or she identified the target market, what kind of market research was conducted and whether any of it was technology-driven, what kind of competition the business faces, and how customer loyalty is maintained. Before conducting the interview, compile a list of questions to ask. Present your findings to the class.
22. You want to start a computer service company that keys and prints professional-looking term papers and resumes for students in your school. Design a survey to help you determine if there is a market for your company. Determine the best way to administer the survey.

MAKE ACADEMIC CONNECTIONS

23. **MATH** You have collected primary data that indicates three-quarters of the people in your town would switch dry cleaners if they could save 50 percent on their dry cleaning. If the average resident in your town spends \$7 a week on dry cleaning and the town has 5,000 residents, how much revenue could you expect to earn per year by opening a discount dry cleaner?

24. **MANAGEMENT** Maggie Blandin, who wants to open a dog-walking business in your town or city, has asked for your help in collecting data. Call your local Chamber of Commerce to gather demographics and psychographics for your community. Also ask for statistics on dog ownership in your area.
25. **RESEARCH** Use the Internet to find the names of four companies that might be able to help you conduct market research. Record information such as how long the company has been in business and what kinds of market research the business does. Summarize your findings and compare them with the findings of other students.

What Would YOU Do?

You are having a luncheon meeting with one of your suppliers at a local restaurant. Across the restaurant, you see the owner of a business that is your main competitor having lunch with someone you do not recognize. They finish eating, pay their check, and leave while you are still at your table. After they leave, you notice that a portfolio

was left in one of the chairs at their table. You go to the table, pick up the portfolio, and see that it is your competitor's marketing strategy for the upcoming year. What would you do? Would you consider it your lucky day and read the business's strategy, or would you turn it in to someone at the restaurant? Why did you choose the action you did?

build your BUSINESS PLAN PROJECT

This activity will help you develop the business plan for your business idea.

1. Identify the target market for your business. Use secondary data sources to help you assess demand for your product or service.
2. Using the secondary data, develop a customer profile for your business. Which market segment of your industry are you targeting? Be specific.
3. Conduct primary data research for your business using the steps outlined in Lesson 4.2. Develop a survey that will give you the information you need. Ask at least 30 people in your target market to complete the survey. Analyze your results and determine what course of action you will take.
4. Determine who your competitors are, both direct and indirect. Access www.cengage.com/school/entrepreneurship/ideas. Click on *Activities* and open the file *Competitive Analysis*. Use the chart to prepare a competitive analysis for your business. Be sure to address strengths, weaknesses, opportunities, and threats.
5. Describe your strategies for maintaining customer loyalty. Give reasons why you think each will work.



Planning a Career in

MARKETING RESEARCH



“My little sister decided to start a babysitting service. To tailor her business to meet client needs, she asked neighbors with children to complete an online survey regarding their child care needs. The results she compiled from the free online survey helped her put together a service and fee schedule.

How do organizations determine what services to offer? How do manufacturers determine which product features are the most important to include in a product?

Marketing research helps companies and organizations decide how to best meet the needs of their clients. Marketing research surveys provide a targeted, concise method to collect and analyze marketing data.

Employment Outlook

- Faster than average job growth is anticipated.
- Globalization, an increasingly competitive marketplace, and better educated consumers all contribute to the increased need for marketing research.
- Outsourcing will create opportunities at consulting and marketing research firms.

Job Titles

- Market Research Analyst
- Mobile Video Research Manager
- Questionnaire Development Manager
- Market Research Coordinator
- Marketing Communications Specialist

Needed Education/Skills

- A Bachelor’s degree is required. Advancement may require a Master’s degree or a Ph.D.

- To keep up with technology changes, continuing education is necessary.
- A blend of quantitative and qualitative coursework is helpful.

What’s it like to work in Marketing Research? Sales at a local gift shop have been lagging, and the owner has contracted with Tess, a self-employed electronic marketing survey writer, to create a marketing research study. The store is an independent store with a limited budget, so Tess decides to use one of the free online survey services to gather data from existing customers. The store’s mailing list will be used to send customers an electronic invitation to participate in the survey. As an incentive for participating in the survey, customers will be offered a 5 percent discount on their next purchase.

During the afternoon, Tess works on preparing a summary report for a restaurant chain. The restaurant wanted to obtain feedback on its service, the environment, and the food quality while all were still fresh on customers’ minds. So Tess used a survey service that collected data via cell phones. Upon receiving their restaurant bills, clients who had cell phones were instructed how to log on to a website where they could answer a brief online survey about their dining experience. Customers can look forward to receiving a free dessert upon their next visit as a reward for survey participation.

What about you? Would you like to help a variety of businesses improve their understanding of customer preferences by developing marketing research surveys?



To succeed in today's global market, businesses must have the ability to sell products and services to consumers via the Internet. The E-Business event demonstrates proficiency in the creation and design of web commerce sites. The event has two parts: a project and a performance component. Each year a national topic is selected by FBLA-PBL, Inc., for which participants in the event must prepare their websites. You can find the current topic on the FBLA website.

Performance Competencies

- Develop the presentation logically and systematically
- Communicate the design process effectively
- Present the tips, techniques, and tools used
- Demonstrate the ability to make a businesslike presentation
- Show self-confidence apparent through knowledge of content and articulation of ideas

Go to the FBLA website for more detailed information.

GIVE IT A TRY

Using the current national topic for the E-Business event, develop a website that meets the following project competencies:

- Document addresses topic and is appropriate for the audience
- Graphics, text treatment, and special effects show creativity and cohesiveness of design
- Selection of fonts and type sizes is appropriate
- Overall layout and design is creative and appealing
- Final product indicates a clear thought process and an intended, planned direction with formulation and execution of a firm idea
- Required information is effectively communicated

Prepare a five-minute presentation that will demonstrate and explain your E-Business website. Make the presentation to your class. Topics to discuss during your presentation should include the following: development of the topic, development and design process, use and implementation of innovative technology, use and development of media elements, and copyright issues with pictures, music, and other items. Be prepared to answer questions about your website after your presentation.

www.fbla-pbl.org