

# FastTrac<sup>®</sup> TechVenture<sup>™</sup>

*ENTREPRENEUR MANUAL*

MAXIMIZING THE  
POTENTIAL OF YOUR  
TECHNOLOGY BUSINESS



**TAKE CHARGE OF YOUR BUSINESS<sup>®</sup>**

A program of the Kauffman Foundation of Kansas City

Ewing Marion  
**KAUFFMAN**  
Foundation



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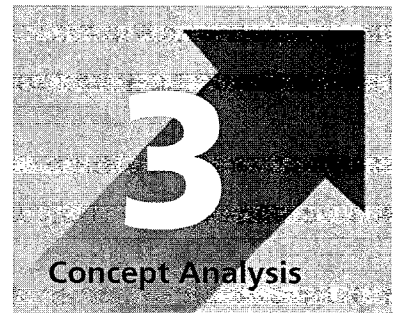
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# Conducting Market Research and Analysis



What separates successful entrepreneurs and businesses from those that don't succeed? Hard work, passion, and luck all play a role, but one of the key factors is the quantity and quality of market research and analysis they do.

Conducting market research is not a one-time event in your business planning process. It is an activity that will continue throughout the life of your business. Since the market research that you perform today may be outdated in three months, you need to get into the habit of routinely confirming your assumptions. Organizations that can respond rapidly to shifting customer needs conduct market research on a regular basis.

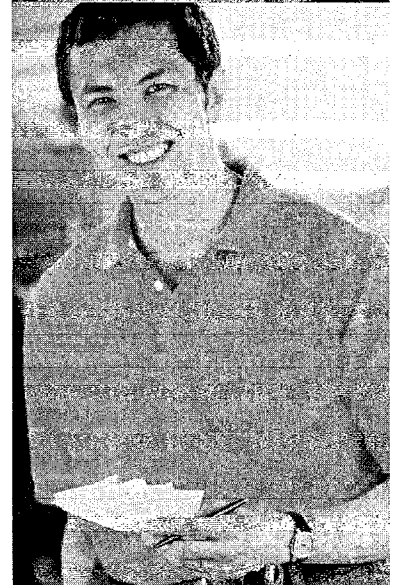
In this module, you will learn how to analyze your market research to uncover opportunities and obstacles in your future. You will also learn how to take the information you have gained from your market research and leverage it to make better-informed business decisions. Finally, with all of your market information in hand, you will craft a value proposition to communicate to your target markets how your product or service meets their needs.

## Outcomes

- Develop strategies and survey questions for primary research.
- Use primary research to describe your customers, competitors, and market in depth.
- Leverage market research and analysis.
- Draft preliminary sales projections.
- Draft a value proposition to target customers' needs and wants and to differentiate your business from your competitors.

## Action Steps (Find online tools at [www.fasttrac.org/toolkits](http://www.fasttrac.org/toolkits).)

- Conduct a customer survey. Call three potential customers. Ask a standard set of questions with all three. Be ready to report on information gained.
- Write the first draft of the following sections of your Business Plan:
  - Sales Projections (Financial Plan section)
  - Value Proposition (Product/Service Plan section)
- As necessary, modify your Marketing Plan in light of ongoing market research.
- Continue to refine your Personal Vision Statement, Business Concept Statement, and Elevator Pitch.
- Read Module 4: Testing Your Business Concept.
- Complete the Business Concept Feasibility Assessment and Technology Feasibility Assessment and Plan (Assessments tab).







## Purposes of Market Research

Market research can provide your company with its most critical strategic asset—knowledge. Armed with accurate information about market size, market segmentation, industry trends, competition, and customer needs and behavior, you can develop a well-conceived business plan.

The quantity and quality of your research will help you in many areas of your business.

**Tip** Conduct structured market research early and informal market research often.

**Building a business plan** – The business plan must be built on facts, not feelings. As you gather facts for the business plan, you can begin to build logical conclusions in the form of assumptions to support the plan. For example, if research indicates an industry is expected to grow by 12 percent in the next two years, entrepreneurs may build assumptions about the expected growth of their own company based on this industry projection. (If you project growth well in excess of the industry projection, you'll need to provide logical explanations for these numbers.) Potential investors and other readers of the plan will expect to see facts and sources behind the assumptions.

**Reality Check** ✓

In spite of its importance in writing the business plan, research is frequently the weakest part of the planning process. It requires the most action, such as visiting potential customers, attending trade shows or conferences, conducting research, and performing competitive due diligence.

**Testing the business concept** – You can test the feasibility of your product or service and distribution channels based on your market research.

**Making better decisions** – The business plan records a series of decisions meant to bring success to your business. These decisions must be made based on an honest look at the facts discovered about the market, industry, and finances surrounding the business concept.

**Building relationships** – Perhaps the most important benefit of market research is developing an understanding of and relationships with potential customers. Market research provides you with an opportunity to learn everything you can about potential customers in a non-threatening environment. Your goal is to ensure that your product or service meets your customers' needs. You can only accomplish this objective if you have a solid base of market and customer knowledge.

## Market Research Methods

It is tempting to conduct too much secondary research and too little primary research. Secondary research, which was introduced in Module 2, involves sifting through data that already exist and should serve as a starting point for primary research. Primary research takes you right to the source, that is, to people you deal with directly such as customers, competitors, vendors, and distributors. This research provides you with the most current and useful information about the viability of your product or service.

**Tip** Focus on the key issues that provide the greatest assessment of your product or service viability, and listen more than you speak. Confirm an assumption each time you talk with a potential customer, competitor, or distributor.

### Primary Research

Primary research is critical for filling in the gaps left after secondary research is complete. Primary research involves gathering information directly from the source. You can collect this information through various channels such as interviews, questionnaires, surveys, and conversations with industry experts, prospective customers, and competitors. E-mail is a great way to communicate with people in the industry to gather information, but it cannot replace the value of face-to-face meetings. Participating in Internet discussion groups or posting questions on an Internet bulletin board for people in the industry can also prove helpful.



This type of research is time-consuming, and obtaining sufficient unbiased primary data is difficult. Still, primary research is necessary to ensure the best results from your market research efforts. It is important that major issues be clearly defined prior to conducting your research. This helps avoid gathering too little information or superfluous information that does not assist in critical decision-making.

Preparing good questions is key to gathering solid and useful market research. Ask open-ended questions of how, why, what, when, and where that allow the interviewee to talk. After the first few interviews, reassess your questions and make changes where appropriate. During primary research you are not there to sell anything; rather you are there to collect data.

**TIP** When defining your B2B customers, also define their customers so you can identify the need your customers must fulfill for their buyers.

### Creating Customer Surveys

A customer survey, or market survey, is a method of collecting information from current or potential customers by having respondents answer a questionnaire administered by telephone, mail, e-mail, or in person. Surveys are a convenient, relatively inexpensive method of gathering marketing information. The number of respondents surveyed may be small or large depending on the requirements of the research.

On the other hand, surveys can be difficult to design, and depending on the dissemination method, costly to use. However, there are now many online tools that help entrepreneurs design and host their surveys online and have instant access to the data at all times. When conducting a survey, it is important to have an accurate sampling, so survey respondents must be selected very carefully. In assessing the value of survey results, the amount and quality of the marketing information is compared with the costs of obtaining it.

### Planning a Survey

Time spent in the planning stage can save time and money. Consider the following planning steps:

1. Develop a clear, detailed goal statement for the survey. What type of information do you need? What is your desired outcome? How will the information be used?
2. Based on the goal of the survey, design a questionnaire with specifications as to who should complete it. If the survey is to be administered by telephone or in person, be sure to include instructions for the person conducting the interviews.
3. Test the questionnaire by conducting several test interviews with people who can advise you about necessary changes. After making the changes, test the revised survey as well.
4. Start interviewing (by using an online form or by mailing or e-mailing the surveys).

### Improving Response Rates

Market survey response rates vary considerably. The average return rates for market surveys can be between 10 and 20 percent, although some questionnaires have received up to a 75 percent response rate.

A number of factors influence the level of response you can expect. Consider these factors that improve response rates:

- Survey respondents with a high level of interest.
- Telephone the respondent prior to mailing or e-mailing the questionnaire.
- Personalize letters and envelopes.
- Enclose a hand-signed cover letter.



- Provide or promise an incentive for survey completion.
- Use first-class postage.
- Provide a postage-paid, self-addressed return envelope.
- Develop a short, high-quality, attractive questionnaire.
  - Use dark ink on light paper.
  - Select a clear, easy-to-read type style.
  - Use a short, attractive cover letter.
  - Use easy-to-read fonts in e-mails.
  - Use an easy-to-view, user-friendly Web-based survey.
- Help the respondents complete their responses by using guides such as lines and arrows.
- Provide specific directions for each type of question.
- Number all questions.
- If using e-mail, keep it short, and send only to a qualified list.

### Focus Groups

A focus group is a form of primary research which uses a small-group discussion format to obtain information from people who represent the company's target market. The group discussion is centered on a specific, predetermined set of questions. A typical focus group session includes six to 10 participants and lasts about two hours.

Focus groups are typically used by B2C companies but can be used by B2B companies as well. If you are going to conduct a focus group, you may want to search out an expert facilitator to ensure that you get really helpful information from the group.

A focus group can be used any time you wish to obtain qualitative information from your potential customers. Focus groups are frequently used to:

- Identify new ideas for products and services.
- Develop questionnaires for statistical research.
- Identify new uses for existing products and services.
- Identify new advertising or packaging themes.
- Test alternative marketing approaches.
- Diagnose competitors' strengths and weaknesses.
- Discover how others judge the uniqueness of your product or service.

There are, of course, both advantages and disadvantages to focus groups. A focus group is a good way to obtain valuable, quick, low-cost marketing information directly from potential customers. On the other hand, the results from a focus group are not statistically significant. Because of the small size of the sample group, the information cannot be projected to the entire target market. In addition, the information obtained may be misleading, and results of focus groups are often difficult to compile. Sometimes people tell you what they think you want to hear, or say they would buy, but wouldn't in actuality. Planning and conducting focus groups can also take a great deal of time.



### Planning for the Focus Group

Conducting a successful focus group involves a great deal of planning. Consider the following steps:

1. Before you plan any focus groups, be sure to document your goals. What type of information do you need? What is your desired outcome? How will the information be used? Goals will help keep the focus group on track, which saves company time and money.
2. After you understand your goals, develop a facilitator guide. This guide should include lists of questions to be covered during the session, arranged by topic for easy reference. When the facilitator uses specific, predetermined questions, it helps to reduce any bias on the part of the facilitator and helps in compiling and comparing the results from different focus groups.
3. Select a location that provides a convenient, comfortable atmosphere for participants. Tape recorders or video recorders to capture the responses of the participants should be as inconspicuous as possible.
4. Choose participants who are actual or potential buyers or who match the relevant characteristics of the target market.

### Facilitating Focus Groups

Facilitating a focus group can be very difficult, especially when you are facilitating a group discussion for your own company.

Remember the following tips when facilitating a focus group discussion:

- Allow the participants to freely speak their opinions. Encourage them to contribute their responses as they go rather than holding their thoughts until the right time.
- Don't provide feedback on participants' responses and recommendations. For example, explaining to participants why their suggestions would not work will discourage further contributions.
- Be aware of possible cultural issues that could affect the comfortable exchange of information.
- Try to reach the goals of the focus group, yet remain flexible.
- Be sure to keep the discussion as close to the topic as possible. There may be times when the discussion will take an unexpected turn. Redirect the topic, if necessary.

Record the session and study the tapes several times after the completion of the focus groups. Have additional people study the tapes and provide their feedback.

**TIP** As it is frequently difficult to be unbiased and accepting of others' suggestions, you should consider using the services of an outside, neutral third party to facilitate the group discussion.



## How to Leverage Market Research

You need to be a detective to learn as much as possible about your markets and industries. Once you have collected all the clues, you can then take this information and use it to solve the mysteries of marketing, sales, and making a profit. Leveraging the information you gather while conducting research will yield high returns, helping you to launch and grow your business.

In Module 5 you will learn how to convert market research into a market penetration plan. For now, we'll look at two ways to use market research to confirm the feasibility of your concept.

### Product Development

There are two important questions to ask when assessing the feasibility of your product:

- Does it work?
- Will someone buy it?

Customer analysis is perhaps the most critical issue to consider in product development. You must determine customer needs and develop a product that has features and benefits the customer desires as well as price points the customer can afford. If you develop a larger, heavier product with more capabilities and then discover that customers care about size and weight more than features, you will not be able to sell the product. Likewise, if you develop a product with more features that costs more than a customer can afford, you will not be able to sell the product.

From Real  
Entrepreneurs

#### Customer Analysis

A company invented baseball caps for truck drivers with electric nodes inside the cap to sense if the driver is falling asleep. If the driver dozes off, the baseball cap sends an electric shock to the driver to wake him up. The founder of this company talked to executives at the trucking companies who thought the idea was fabulous. It turned out that the truck drivers are such an independent breed that they were not willing to wear caps that the trucking company gave them to wear. Thus the trucking company stopped purchasing the hats, and the hat company went out of business. The company performed market research but failed to uncover the needs of the actual end user.

Business  
Plan  
Financial Plan –  
Sales Projections

### Estimating Market Share

Your business concept is not feasible if it will not capture a large enough share of the market to generate the sales and revenue necessary to sustain and grow the business.

A sales forecast based on the estimated market share is critical to assessing whether to proceed with the business as planned. Developing an accurate estimate for a new company's market share is difficult. It requires an understanding of the many variables that affect a purchase. For example, an advertising and promotion effort will have a significant impact on the sales of a product or service and its competitors.

A common approach to estimating market share is to use actual industry sales figures, identify competitors and estimate their sales, and then estimate how the product or service will do relative to competitors. Customer intention surveys and expert opinions from suppliers and trade associations can provide information for this estimate. The market share is usually expressed as a percentage.



Another approach for estimating sales is referred to as a bottom-up approach. In this approach, you identify all potential customers for the product or service and then estimate the number that would most likely purchase the product or service. The following steps detail the process:

1. Estimate the number of potential buyers for the product or service. For therapeutics, an epidemiologic analysis is necessary (as mentioned in Module 2: Defining the Target Market).
2. Determine how many interested buyers have the income to purchase the product or service.
3. Consider how to develop awareness of your new product in the target segment. A partnership with a strong marketing organization can be especially helpful.
4. Estimate the quantity of the product or service a customer will purchase to determine how many units could be sold in a year. This number is the market demand for the product or service. Consider the strength of your patent position and competitive products. How long can your unique benefits be protected by a patent?
5. Calculate a market share by estimating how the projected unit sales compare with competitors' or potential competitors' sales.

*Reality  
Check* ✓

Estimates are educated guesses. The better the input—the facts—the closer the estimate will be to reality.

## Value Proposition

A value proposition defines the benefits your company's products and services offer to the customer. This short statement, based on your Business Concept Statement, should express the essence of your business in a way that compels the customer to buy.

It's important to expend the necessary time and effort to craft a compelling value proposition since it will form the basis for all your sales, marketing, and product development efforts. The value proposition is also part of your Business Plan.

A value proposition is a valuable tool to guide your marketing efforts. Here are some benefits that you will receive by having a clear, compelling value proposition:

- Create a strong differentiation between you and your competitors.
- Increase not only the quantity but also the quality of prospective leads.
- Gain market share in your targeted segments.
- Improve your operation efficiency.
- Increase your revenue.
- Ensure that everyone in your company communicates the same message.

Follow these guidelines to create a value proposition that will compel customers to buy your product or service:

- Use your Business Concept Statement as a starting point for expressing your value proposition.
- Address the needs of your target market. What problems do your target customers need to solve? What's not working for them? Where do they want to go?
- Emphasize benefits, not features. Don't explain what the technology does; explain what the buyer will get out of using the technology. Some examples of benefits are greater revenue opportunity, a competitive advantage, reduced costs and expenses, greater convenience, greater Return on Investment (ROI), and better results.

*Business  
Plan* ↑  
Product/Service Plan –  
Value Proposition



- Use tangible examples. Be as precise and specific as possible. Include numbers, percentages, and time frames.
- Be clear and concise. Condense your message into two sentences.
- Differentiate yourself from the competition. What do you have that no one else has? And—most importantly—how is this an advantage to your customers?

Research and test your value proposition. Ensure that your message strikes the right note with the right people.