



The Power of Market Research in Business Planning

Market research plays an important role in many aspects of strategic marketing and business planning.

In the article *Showcasing Your Business with the Executive Summary*, we provided an outline to use when developing an Executive Summary or Business Plan. It communicates to outside investors or corporate management the positive benefits of a specific business proposal.

In this article, we follow that outline as we discuss how various types of market research can be used to strengthen the case for your business opportunity.

Market Opportunity

For every new business opportunity, investors want to know how big is the overall market, what is the willingness of customers to spend money in that market and who are the subgroups of customers with the greatest need.

Secondary market research sources can provide a basis for understanding the market size and spending habits in a particular market. Major market research firms publish the results of studies they undertake to estimate the market size and spending for specific industries and products. Excerpts of these reports are often re-published in industry periodicals.

When multiple research firms study the same market, the results can range widely. Therefore, understanding the methodology used and the underlying assumptions of each study can be important. When entering a new market that is not tracked by market research firms, more creative methods of establishing market size and spending habits may be required.

Moreover, many investors prefer primary research (first hand research done specifically to understand a particular market) to establish market size and spending patterns. Sometimes this is in the form of survey or focus group results that establish an understanding of the market from the customer's perspective. It can also be information gathered as data points from specific respected individuals that represent the target market. If these people agree to speak directly to investors, credibility and validity of the business opportunity is greatly enhanced.

Secondary and primary research are also valuable in identifying the initial customer segments that will benefit most from the proposed products or services. Understanding the unique needs of specific customer groups provides the required input to segment the entire population that may be candidates for the products over time. Identifying initial target segments sets the foundation for addressing the specific needs of high value customer segments in a unique way compared with the competition.

Products and Services

Customer research provides valuable input to the definition of features and functionality that will meet customer needs.

Marketing and Sales Strategy

Pricing sensitivity, distribution channel preferences, and effectiveness of various marketing programs can be determined through customer and market research. This information can be gathered using primary research techniques including surveys and focus groups

The Competition

Understanding how the competition is positioned in the eyes of prospects and customers, the features and functions of their product, and their directional statements is important to establishing sustainable competitive advantages. Investigating the competition means not only looking at competitive products, but also considering traditional means of solving the problem at hand (e.g., manual techniques).

Readily available secondary research sources can provide a depth of knowledge that previously was extremely time-consuming to accumulate. Determining the positioning and offerings of the competition has been made much easier with the advent of extensive Web information provided by corporate sites, industry periodicals, industry associations, market research firms, and the Securities and Exchange Commission. (The SEC documents are located at <http://www.SEC.gov>.)

Primary data gathered through discussions with joint customers, suppliers, and industry experts can result in valuable insights to the proposed opportunity.

Financial Growth and Success

Investors must understand how their investment will result in the growth of a viable company, product, or service. As a result, creating realistic financial statements that provide a preview of the future is critical to the investor's assessment.

Publications, such as *Almanac of Business and Industrial Financial Ratios*, *Annual Statement Studies*, and *Industry Norms and Key Business Ratios* (available at the public library), industry periodicals, and financial statements of similar companies provide valuable information on financial ratios that can be used to create preliminary financial statements. These ratios also can be used to assess whether the business opportunity is viable long before substantial time and effort is dedicated to building a more detailed business plan.

Once a first draft of the financial reports are developed, they can then be refined from a bottom up perspective as the operational plans, such as marketing programs and staffing, are defined.

Investment Requirement

Understanding the current investment market and the size of investments made in similar business opportunities is important to ensuring a realistic valuation and financial commitment. This information can be gathered from sources, such as industry, financial, and national publications, and from trusted advisors, such as lawyers, accountants, other entrepreneurs, industry experts, and corporate managers.

Market and customer research provides a powerful backdrop to the business plan and executive summary.