

UNIT 5

Market research – Definition

Market research consists of systematically gathering data about people or companies – a market – and then analysing it to better understand what that group of people needs. The results of market research, which are usually summarized in a report, are then used to help business owners make more informed decisions about the company's strategies, operations, and potential customer base.

Types of Market Research

- **Primary.** Primary data is first-hand information you gather yourself, or with the help of a market research firm. You control it.
- **Secondary.** Secondary data is pre-existing public information, such as the data shared in magazines and newspapers, government or industry reports. You can analyse the data in new ways, but the information is available to many people.

STEPS INVOLVED IN MARKET RESEARCH

1. Define the “Problem”
2. Statement of Research Objectives
3. Planning the Research Design or Designing the Research Study
4. Planning the Sample
5. Data Collection
6. Data analysis
7. Data Collection

Step 1. Define the “Problem”

By understanding the business problem clearly, one will be able to keep research focused and effective. The market research process begins with the identification of a problem faced by the company. Clear definition of the problem is of crucial importance in marketing research because such research is a costly process involving time, energy and money.

Clear definition of the problem helps the researcher in all subsequent research efforts including setting of proper research objectives, the determination of the techniques to be used, and the extent of information to be collected.

2. Statement of Research Objectives:

After identifying and defining the problem researcher must take a formal statement of research objectives. Such objectives may be stated in qualitative or quantitative terms and expressed as research questions, statement or hypothesis. For example, the research objective,

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“To find out the extent to which sales promotion schemes affected the sales volume” is a research objective expressed as a statement.

3. Planning the Research Design or Designing the Research Study:

After defining the research problem and deciding the objectives, the research design must be developed. A research design is a master plan specifying the procedure for collecting and analysing the needed information. It represents a framework for the research plan of action.

4. Planning the Sample:

Sampling involves procedures that use a small number of items or parts of the ‘population’ (total items) to make conclusion regarding the ‘population’. Important questions in this regard are— who is to be sampled as a rightly representative lot? Which is the target ‘population’? What should be the sample size—how large or how small? How to select the various units to make up the sample?

5. Data Collection:

The collection of data relates to the gathering of facts to be used in solving the problem. Hence, methods of market research are essentially methods of data collection. Data can be secondary, i.e., collected from concerned reports, magazines and other periodicals, especially written articles, government publications, company publications, books, etc.

Data can be primary, i.e., collected from the original base through empirical research by means of various tools.

6. Data Analysis:

Analysis of data represents the application of logic to the understanding of data collected about the subject. In its simplest form analysis, may involve determination of consistent patterns and summarising of appropriate details.

7. Formulating Conclusion, Preparing and Presenting the Report:

The final stage in the marketing research process is that of interpreting the information and drawing conclusion for use in managerial decision. The research report should clearly and effectively communicate the research findings and need not include complicated statement about the technical aspect of the study and research methods.

MARKET SEGMENTATION

- Market segmentation is a marketing concept which divides the complete market set up into smaller subsets comprising of consumers with a similar taste, demand and preference.
- A market segment is a small unit within a large market comprising of like-minded individuals.
- One market segment is totally distinct from the other segment.

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- A market segment comprises of individuals who think on the same lines and have similar interests.
- The individuals from the same segment respond in a similar way to the fluctuations in the market.

Basis of Market Segmentation

- **Gender**

The marketers divide the market into smaller segments based on gender. Both men and women have different interests and preferences, and thus the need for segmentation. The segmentation of the market as per the gender is important in many industries like cosmetics, footwear, jewellery and apparel industries.

- **Age Group**

Division based on age group of the target audience is also one of the ways of market segmentation.

The products and marketing strategies for teenagers would obviously be different than kids.

Age group (0 - 10 years) - Toys, Nappies, Baby Food, Prams

Age Group (10 - 20 years) - Toys, Apparels, Books, School Bags

Age group (20 years and above) - Cosmetics, Anti-Ageing Products, Magazines, apparels and so on

- **Income**

Marketers divide the consumers into small segments as per their income. Individuals are classified into segments according to their monthly earnings.

The three categories are:

High income Group

Mid Income Group

Low Income Group

Stores catering to the higher income group would have different range of products and strategies as compared to stores which target the lower income group.

Pantaloon, Carrefour, Shopper's stop target the high-income group as compared to Vishal Retail, Reliance Retail or Big bazaar who cater to the individuals belonging to the lower income segment.

- **Occupation**

Office goers would have different needs as compared to school / college students

Types of Market Segmentation

1. **Psychographic segmentation**

The basis of such segmentation is the lifestyle of the individuals. The individual's attitude, interest, value help the marketers to classify them into small groups.

2. **Behaviouralistic Segmentation**

The loyalties of the customers towards a brand help the marketers to classify them into smaller groups, each group comprising of individuals loyal towards a brand.

3. **Geographic Segmentation**

Geographic segmentation refers to the classification of market into various geographical areas. A marketer can't have similar strategies for individuals living at different places.

Nestle promotes Nescafe all through the year in cold states of the country as compared to places which have well defined summer and winter season.

McDonald's in India does not sell beef products as it is strictly against the religious beliefs of the countrymen, whereas McDonald's in US freely sells and promotes beef products.

Steps in Market Segmentation

1. **Identify the target market**

The first and foremost step is to identify the target market. The marketers must be very clear about who all should be included in a common segment. Make sure the individuals have something in common. A male and a female can't be included in one segment as they have different needs and expectations.

Maruti Suzuki has adopted a focused approach and wisely created segments within a large market to promote their cars.

Lower Income Group - Maruti 800, Alto

Middle Income Group - Wagon R, Swift, Swift Dzire, Ritz

High Income Group - Maruti Suzuki Kizashi, Suzuki Grand Vitara

2. **Identify expectations of Target Audience**

Once the target market is decided, it is essential to find out the needs of the target audience. The product must meet the expectations of the individuals. The marketer must interact with the target audience to know more about their interests and demands.

Kellogg's K special was launched specifically for the individuals who wanted to cut down on their calorie intake.

3. **Create Subgroups**

The organizations should ensure their target market is well defined. Create subgroups within groups for effective results.

Cosmetics for females now come in various categories.

- Creams and Lotions for girls between 20-25 years would focus more on fairness.
- Creams and lotions for girls between 25 to 35 years promise to reduce the signs of ageing.

4. Review the needs of the target audience

It is essential for the marketer to review the needs and preferences of individuals belonging to each segment and sub-segment. The consumers of a particular segment must respond to similar fluctuations in the market and similar marketing strategies.

5. Name your market Segment

Give an appropriate name to each segment. It makes implementation of strategies easier.

A kids section can have various segments namely new born, infants, toddlers and so on.

6. Marketing Strategies

Devise relevant strategies to promote brands amongst each segment. Remember you can't afford to have same strategies for all the segments. Make sure there is a connection between the product and the target audience.

A model promoting a sunscreen lotion has to be shown roaming or working in sun for the desired impact.

7. Review the behaviour

Review the behaviour of the target audience frequently. It is not necessary individuals would have the same requirement (demand) all through the year. Demands vary, perceptions change and interests differ. A detailed study of the target audience is essential.

8. Size of the Target Market

It is essential to know the target market size. Collect necessary data for the same. It helps in sales planning and forecasting.

MARKET TARGETING

Target Marketing refers to a concept in marketing which helps the marketers to divide the market into small units comprising of like-minded people. Such segmentation helps the marketers to design specific strategies and techniques to promote a product amongst its target market. A target market refers to a group of individuals who are inclined towards similar products and respond to similar marketing techniques and promotional schemes.

Example:- Kellogg's K Special mainly targets individuals who want to cut down on their calorie intake. The target market in such a case would be individuals who are obese. The strategies designed to promote K Special would not be the same in case of any other brand say Complan or Boost which majorly cater to teenagers and kids to help them in their overall development. The target market for Kellogg's K Special would absolutely be different from Boost or Complan.

Basis of Target Marketing

- Age
- Gender
- Interests
- Geographic location
- Need
- Occupation

Why target marketing? (Need of Target Marketing)

- Organizations can use similar kind of strategies to promote their products within a target market.
- They can adopt a more focussed approach in case of target marketing. They know their customers well and thus can reach out to their target audience in the most effective way.

How to create Target Market

- The organization must first decide who all individuals would fit into a particular segment. A male and a female can't be kept in the same segment. The first and the foremost step are to decide on the target market.
- The next step is to identify need and preference of the target market. It is essential to find out what the target market expects from the product.
- Once the target market is decided, organizations can decide on the various strategies helpful to promote their product

Selection of Target Market

Marketers must understand the needs and expectations of the individuals to create its target market.

The target audience must have similar needs, interests and expectations.

Similar products and brands should entice the individuals comprising the target market.

Same taglines and advertisements attract the attention of the target audience and prompt them to buy.

To select a target market, it is essential for the organizations to study the following factors:

- Understand the lifestyle of the consumers
- Age group of the individuals
- Income of the consumers

- Spending capacity of the consumers
- Education and Profession of the people
- Gender
- Mentality and thought process of the consumers
- Social Status
- Kind of environment individuals are exposed to

Always remember you would never be successful if you try to impress everyone. Be specific

Identify individuals who show similar characteristics. Put them in one group to create target market within a broad market.

Let us go through the below **example**:

Why do people use soaps?

Some would use it against body odour

Some would use it to fight germs and infections

Some for a fair and spotless skin

In the above case the product is same but the needs of the individuals are different.

Consumers have different reasons as to why they use soaps.

Target Audience 1

Against body odour - Soaps with a strong and lasting fragrance.

- Marketing professionals
- Sales Representatives
- People exposed to sun for a longer duration
- Individuals travelling by public transport

Target Audience 2

To fight germs and infections - Soaps with medicinal properties

- Individuals working in hospitals, nursing homes and research centres
- Individuals working in unhygienic conditions

Target Audience 3

For a whiter skin - Soaps which improve the skin tone of individuals.

- Teenagers
- College students

Target Audience 4

For a younger looking skin - Soaps which help get rid of wrinkles and fine lines of ageing

- Individuals between age group 30 – 50 years or above

Other important factors like climatic conditions and geographical locations also play an important role in deciding the target market.

Deodorants and perfumes sell like hot cakes in humid and warm places.

Target Market for Beverages

Bournvita, Complan, Maltova, Boost - Growing kids

Soft drinks (Pepsi, Coke) - Teenagers

Fruit Juice (Real, Tropicana) - Health conscious individuals

Energy Drinks (Red bull) - Professionals, Office goers

DEMAND MEASUREMENT

A major reason for undertaking marketing research is to identify market opportunities. Once the research is completed, the company must be able to measure and forecast the size, growth and profit potential of each market opportunity.

Demand is defined as the quantity bought by buyers over a certain time period, in a given marketing environment. Estimating the total market demand and estimating the particular share of their company is important for marketers.

Demand is basically the quantity of a good or services that consumers are utility and able to purchase at various prices at a particular period of time.

CONCEPTS OF DEMAND MEASUREMENTS

The measurement of demand basically involves the estimation of market demand company demand.

- **Market Demand:**

Marketing demand for a product is a total volume that would be bought by a defined customer group in a defined geographical area in a defined time period, in a defined marketing environment, under a defined marketing programme.

The major factors which to be considered during the forecasting of demand of demand are the-

- a) **Market identification:**

It involves analysis of markets and to find out potential customers and finding out the expectations of the expectations of the consumers.

- b) **Market motivation:**

It involves the location of potential customers and also motivating consumers to buy the product. It involves the analysis of the reasons why the product is not preferred by certain people.

c) **Market potential analysis:**

It involves the study of market and the taking decisions regarding the investment required to be made in any particular market. Underestimating may result in loss to the company.

• **Company Demand:**

It is the company's estimated share of market demand at alternative levels of company marketing effort in a given time period. It depends on how the company's products, services, prices and communications relative to the competitors.

The company's share depends upon the

- Quality of the product
- Marketing investments and strategies
- Pricing of the product
- Brand image and reliability
- Other factors

As with the market demand, the company demand also governed by several factors and the company demand may also be of following types

a. **Company sales (demand) potential:**

It represents the sale limit of the particular company after putting the maximum level of investment in marketing. It represents the maxima of the demand curve and beyond this any further increase in marketing expenditure does not increase the sale of the company.

b. **Company sales forecast:**

It represents the sale level which may be obtained upon putting in the certain level of expenditure in the company's marketing strategies

SALES FORECASTING

Sales forecasting is the process of organized and analyzing information in a way that makes it possible to estimate what will be the sale of the business in the near future.

STEPS IN SALES FORECASTING:-

It involves-

1) **Forecast for general economic conditions:-**

The general economic conditions within the boundaries of the nation do affect the purchasing power of the individual customer. This leads to the changes of the economic conditions over the sale of the company.

2) **Forecast of industry sale:-**

The industry forecast for the trade organizations and proper SWOT (Strength, Weakness, Opportunities, and Threat) Analysis could throw light on the competition within the market.

3) **Preparing forecast for company sale:-**

The sales manager while preparing the sales budget of the company to forecast the company and product sale for the coming year. Depending upon this year, the entire planning of the production, Manpower, Financing and Revenue calculations are done.

FACTORS AFFECTING SALES FORECASTING

1. Business Environment
2. Industry conditions
3. General economic conditions
4. Internal conditions of the business enterprise.
5. General Socio-economic conditions.
6. Factors affecting the trade such as Govt. policies.

TECHNIQUE OF SALES FORECASTING:-

I. Estimating current demand:

- a) Market potential estimation:- it is the size of the current market available to the firm hence represents the maximum sales all firms can achieve in the given geographical area at the given time.
It is done by multiplying total number of potential buyers with their total volume of product.
- b) Territory market potential estimation:- it is done to estimate the potential of the different areas of a market and based upon terrestrial distribution of sale effort is made.
- c) Estimating existing and potential customers:- it involves the estimation of numbers of customers who are currently using the product of the particular company along with the quantity of product being used by them. The potential number of customer may be estimating by looking at and identifying the competitor customers.
- d) Brand development index:- it involves the identification of brands and category based sales and then this data may be used to know the position of the brand in the market.
- e) Industry and market share:- in this method the industry sales and market share of the competitors and the firm in the position.

II. Estimating future demand:

There are various approaches adopted by the sales organizations for the forecasting of future demand. These approaches may broadly be classified into two methods-

- A. Qualitative methods:- these are purely made of judgments either of experts as a collective judgment of knowledgeable people in the industry or of potential customers. The methods are of following types
1. Executive opinion
 2. Delphi Method
 3. Sales force composite method
 4. Survey of Buyers
 5. Historical analogy method
- B. Quantitative methods:- several quantitative methods have been used for estimating future demands
1. Trend Projection method
 2. Simultaneous equation method
 3. Forecasting with input-output analysis
 4. Computer assisted forecasting
 5. Market research method
 6. Simulated marketing situations
 7. Controlled marketing experiments
 8. Econometric methods
 9. Market factor analysis
 10. Projection of past sales
 11. Statistical sampling
 12. Statistical demand analysis
 13. Regressive analysis
 14. Exponential smoothing.

GEODEMOGRAPHIC ANALYSIS

The term geodemographic analysis is the conjunction of Geography and Demography. Now a days a large number of quantitative data may be obtained from the Censes data. This data may provide the following details about the people living in the certain geographical area:-

- Their average age
- Their source of income/ employment
- Their average annual income
- Their living standards and requirements etc.

Such data if properly analyzed may aid in taking several marketing decisions and may aid in the formulation of proper marketing strategies to ensure that the right product mix is introduced in that area.

Several firms and organizations carry out geodemographic analysis e.g. Claritus uses Zip Codes (pin codes) to group areas that are similar in age income and family compositions. Its database is known as Prizm which stands for Potential Rating Index for Zip Markets.

The geodemographic analysis may ensure that products may be launched in an appropriate market e.g. an inverter may be advertised in the area with power cuts; in the same way there is no benefit in advertising of a luxury car brand in a Slum.

The Prizm Database has classified the United States into 66 clusters based upon Geodemographic differences; some of these includes-

- Bohemian mix
- Sub urban Pioneers
- Big fish, Small pond
- Upper crust
- Country casuals.

The geodemographic studies may be employed in Pharmaceutical fields as well as certain diseases are more prevalent in certain geographical areas hence the marketing of drugs against the diseases may be done in these specific geographical areas.

It is often found that certain races inhabit certain geographical regions and these races are prone to certain specific diseases. So the marketing of drugs against the diseases may be carried out in those regions.

Life styles induced disorders are also more prevalent in certain class of society and people inhabiting in a particular area; and these regions may be identified using geodemographic and appropriate marketing strategies may be adopted.

The geodemographic analysis may be an effective tool for estimating current demand because demanding the quantity of goods which a person is willing and able to buy of a certain time in a particular price.

Thus the estimation of demand involves estimating:-

- Quantity of goods to be bought at particular price.
- Willing to buy.
- Ability to buy.

Among these willingness and ability to buy may be assessed using Geodemographics, as these two factors depend upon:-

- Age
- Income
- Family structure
- Life style
- Geographical area etc.

and all these factors may be assessed by proper geodemographic analysis.

ESTIMATING INDUSTRY SALES

Sales forecasting is a difficult area of management.

Reasons for undertaking sales forecasts

Businesses are forced to look well ahead in order to plan their investments, launch new products, decide when to close or withdraw products and so on. The sales forecasting process is a critical one for most businesses. Key decisions that are derived from a sales forecast include:

- Employment levels required
- Promotional mix
- Investment in production capacity

There are two major types of forecasting, which can be broadly described as macro and micro:

Macro forecasting is concerned with forecasting markets in total. This is about determining the existing level of Market Demand and considering what will happen to market demand in the future.

Micro forecasting is concerned with detailed unit sales forecasts. This is about determining a product's market share in a particular industry and considering what will happen to that market share in the future. The selection of which type of forecasting to use depends on several factors:

- (1) The degree of accuracy required – if the decisions that are to be made on the basis of the sales forecast have high risks attached to them, then it stands to reason that the forecast should be prepared as accurately as possible. However, this involves more cost
- (2) The availability of data and information – in some markets there is a wealth of available sales information (e.g. clothing retail, food retailing, and holidays); in others it is hard to find reliable, up-to-date information
- (3) The time horizon that the sales forecast is intended to cover. For example, are we forecasting next weeks' sales, or are we trying to forecast what will happen to the overall size of the market in the next five years?
- (4) The position of the products in its life cycle. For example, for products at the "introductory" stage of the product life cycle, less sales data and information may be available than for products at the "maturity" stage when time series can be a useful forecasting method.

Creating the Sales Forecast for a Product

- 1) The first stage in creating the sales forecast is to estimate Market Demand.

Definition – Market Demand for a product is the total volume that would be bought by a defined customer group, in a defined geographical area, in a defined time period, in a given marketing environment. This is sometimes referred to as the Market Demand Curve.

- 2) Stage two in the forecast is to estimate Company Demand

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Company demand is the company's share of market demand.

This can be expressed as a formula:

Company Demand = Market Demand * Company's Market Share

3) Step Three is then to develop the Sales Forecast

The Sales Forecast is the expected level of company sales based on a chosen marketing plan and an assumed marketing environment.

Note that the Sales Forecast is not necessarily the same as a "sales target" or a "sales budget".

A sales target (or goal) is set for the sales force as a way of defining and encouraging sales effort. Sales targets are often set some way higher than estimated sales to "stretch" the efforts of the sales force.

A sales budget is a more conservative estimate of the expected volume of sales. It is primarily used for making current purchasing, production and cash-flow decisions. Sales budgets need to take into account the risks involved in sales forecasting. They are, therefore, generally set lower than the sales forecast.