Researching Your Business Idea

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What Do You Need to Know?

• Industry Trends
• Consumer Trends
• Competition
• Target Market
Why Do You Need to Know It?

- Evaluate the probability of success
- Identify your target market
- Tailor your product to customer needs/wants
- Differentiate your product
How Do You Go About It?

• Two approaches
  – Primary research
    • Research conducted from scratch
  – Secondary (desk) research
    • Research using data already collected by someone else

Usually best to use a combination of these two approaches
Primary research

• Types
  – Surveys
  – Interviews
  – Focus Groups
  – Product tests
  – Data from your business records
Primary research

• Advantages
  – Tailored to your specific idea
  – Gives you “new” information

• Disadvantages
  – Can be costly
  – People’s responses may not be reliable
  – May be difficult to interpret the findings
Secondary research

• Sources
  – Government data sources
    • Census
    • Consumer Expenditure Survey
  – Commercial data sources
  – Business directories
  – Trade associations/ journals
  – Reports, newspapers, magazines
Secondary research

• Advantages
  – Easy to collect, inexpensive (free!)
  – Often many years of data available

• Disadvantages
  – May not provide the detail you need
  – May be difficult to assess new ideas
  – May not be reliable or current
Industry Trends

• What does the industry look like?
  – Is it growing?
  – Who are the industry leaders?
  – What role does technology play?
  – Are there government regulations?
Industry Trends

• Sources of information
  – Trade Associations
    • American Nursery and Landscape Association
  – Standard and Poor’s Industry Guides
  – Magazines, trade journals, newspapers, reports
    • Progressive Farmer
  – Government data sources
    • Consumer Expenditure Survey
Industry Trends Affecting Precision Agriculture

“The farmer is looking for new ways of improving his economic position. At the same time, society is requiring the farmer be more environmentally conscious. The uncertain hope of precision agriculture is that it can help meet these complicated and interacting goals”.

– John F. Reid, “The Impact of Precision Agriculture on US Agriculture; an industry and an academic perspective”

– http://www.age.uiuc.edu/age221/precag/Impact%20of%20Precision%20Ag.html
Competition

• Who is your competition?
  – What are their strengths/weaknesses?
    • How long have they been in business?
    • Do they have brand recognition?
  – How is the market share distributed?
    • Is there a dominant player?
    • Are there major and minor players?
Competition

- Sources of information
  - Business directories
  - Yellow pages
  - Industry reports, trade associations
Competition for Go-Cart Track in Ames

- Other recreational activities
  - Roller skating/ice skating
  - Bowling
  - Movies
  - Other?
Competition

• Can the market support another business?

  – Threshold levels – average number of consumers needed to support a business
  – **Average number of firms per town**
  – Trends – growing, declining, consolidating, saturated
Automobile Parts Stores Change, 1976 to 2001

- Change in Total Sales: -28.9%
- Change in Number of Firms: 67.0%
- Change in Sales Per Firm: -28.9%

Saturated
Men’s Apparel Stores
Change 1976 to 1998

Change in Total Sales
-76.9%

Change in Number of Firms
-66.6%

Change in Sales Per Firm
-30.8%

Figures have been adjusted for inflation.
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Department Stores
Change 1976 to 1998

- Change in Total Sales: 82.7%
- Change in Number of Firms: -24.1%
- Change in Sales Per Firm: 132.2%

Figures have been adjusted for inflation.
THRESHOLD LEVELS FOR SELECTED BUSINESSES IN IOWA, 2000-2001

- Restaurants, Taverns, & Bars: 363
- Used Merchandise Stores: 705
- Sporting Goods & Bicycle Shops: 1,124
- Lawn & Landscape Service: 1,585
- Grocery Stores: 2,941
- Furniture Stores: 4,127
- Jewelry Stores: 4,186
- Hardware Stores: 5,449
- Nurseries, Lawn & Garden Supply: 4,394
- Florists: 3,595
- Department Stores: 11,566
- Shoe Stores: 10,377
- Department Stores: 11,566
Competition

• What is your competitive advantage?

• How much of the market do you expect to capture?
Estimating Sales

• Per Capita Expenditure Approach

\[
\text{Per Capita Expenditure} \times \text{Market Population} \times \text{Your Expected Market Share} = \text{Estimated Revenue in Year One}
\]

Example: A Florist Shop in Ames

\[
\$24 \times 50,730 \times 15\% = \$182,628
\]

Is this a good estimate?
Consumer Trends

• What forces are shaping the market?
  – Demographic changes
    • Aging Population
    • Hispanics are fastest growing minority group in the U.S.
  – Lifestyle changes
    • More dual earner households, longer working hours = less time!
    • Greater Internet access = better information about products & pricing
    • Indulgence, “treat yourself” attitude

• How will these trends affect your business?
Consumer Trends Affecting Producer Owned Butcher Shop

- “The average time spent preparing meals is **30 minutes** and is projected to fall below **15 minutes** in the near future.”
- “Seventy percent of consumers don’t decide what to have for dinner until that day and 42% decide within four hours of the meal.”
- “Meat departments offer uncooked meats with stuffing—prepackaged two to an aluminum cooking container. The cooking temperature and time are clearly marked on the label. Place in the oven and set the timer, put on the minute rice, open the precut salad greens, and find Suzy to help her with those math problems.”

Thomas Murphy, Penn State University, “The Fruit Growers News, Feb. 1999
Consumer Trends

- Sources of information
  - Newspapers, magazines, trade journals
  - American Demographics
  - Personal Observation backed up by secondary data sources
  - Other business owners
Target Market

• What does your target market look like?
  – How many?
  – Where do they live?
  – Age
  – Income
  – Education
  – What do they need or want?
Target Market

• Sources of information
  – Secondary data
    • U.S. Census
    • Census of Agriculture
  – Primary data
Target Market for All-in-One Ag Consulting Firm

• In 1997,
  – 90,792 farms in Iowa
    • 49,638 operated more than 180 acres
    • 20,720 operated more than 500 acres
  – 61.3% of Iowa farmers worked some days off the farm
    • In 1978, 44% worked some days off farm
Points to Remember

• Market research will help you evaluate and refine your business idea
• It will help you document your claims and help convince others your ideas will succeed.
• Two main approaches to conducting market research
  – Best to use both
• If you need help finding information, feel free to contact me --- Email: gartz@iastate.edu
Questions ?