

Can You Get There From Here?

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Research your market to determine if your business idea will work.

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One man's trash is another man's treasure. That's especially true for Ava DeMarco and Robert Brandege. The two young entrepreneurs salvage discarded rubber inner tubes, bottle caps, license plates, hubcaps and other throwaways to manufacture trendy fashion accessories, which they sell through Little Earth Productions Inc., the Pittsburgh-based business they founded in 1993.

The market for their unique offerings--beer-cap-studded belts made from recycled rubber, backpacks decorated with car emblems, gym bags accented with chrome hubcaps--is indeed hot among 18- to 35-year-old buyers who want a funky, upbeat look. In 1995, Little Earth Productions grossed \$1.9 million. The partners expect their company to finish this year with \$4 million in sales.

How did DeMarco and Brandege know there was a niche in the retail fashion industry for their offbeat eco-fashions? They researched the market. "We had a gut feeling about recycled fashion accessories, and the research we did confirmed our instincts," explains DeMarco. "Before we invested a lot of time and money, we wrote a business plan for our company, and took a look at the market to make certain we were targeting the right buyers and offering products they wanted and could afford."

Every year, thousands of entrepreneurs face similar challenges. Will my product sell? At what price? Who are my customers? Who is my competition? Here are six essential steps to researching your market in order to answer these key questions.

1. Know your customer. Probably the most important part of the market research puzzle is figuring out who your customers are. What is their age, gender and marital status? Do you know their income level and occupation? Are they conservative, or trend-setters? Do they have political, religious or environmental beliefs that will influence their buying? Do they spend money freely and demand top quality, or do they shop for bargains?

During the early days of their company, DeMarco and Brandege gathered concrete information for their buyer profile by personally selling their products at Pittsburgh arts festivals. There, they met and talked with customers, whom they learned were primarily in their teens to mid-30s.

"It was a good way to watch people use our products," notes DeMarco. "We also got a lot of feedback on price, and comments about how our products worked or didn't work for them."

The partners also devised a simple survey tool to gather additional customer information by attaching a small tag to every product shipped to retail stores for sale. Purchasers were asked to jot down answers to a brief list of questions and mail the completed tags to the company. "We asked for their name and address, general salary range, whether they're a student or professional person, and why they bought our product," explains DeMarco. "We also wanted to know what other products they buy, and what products they would like to see from us."

Customer response has been helpful. "However, we're not sure if the people who returned the tags were those who really liked our product or those who had the time to return the tags. But the tags gave us anecdotal information that helped. It confirmed our feelings that our market consists of buyers in their teens to mid-30s. We had a surprise, too: A number of buyers were older, in their 40s and 50s."

2. Scope out your competition. Before opening their doors for business, DeMarco and Brandege examined competitive products on the market. They found their competitors "were strongly skewed toward recycling, and didn't focus on the style and function of the product," explains DeMarco. She reasoned that if Little Earth Productions could come up with similar products that used better materials and design, the company could have a greater impact on the market. "We chose a different emphasis than our competitors," she says. "We decided to focus primarily on the fashion--rather than on the recycling--aspects of our products. This way, we could not only get into the eco-stores, but also high-end commercial stores like Nordstrom."

Gathering data about their competition was a fairly simple task. The partners called various companies, requesting copies of their catalogs and pricing sheets. They also checked newspapers and magazines for information about their competitors' activities.

3. Set the right price. To stay in business, you have to sell your product at a price your customer is willing to pay. Your price also has to cover your costs of doing business and allow for a profit. As DeMarco learned, finding that happy medium isn't always easy. During the company's early days, customers balked at the high price tags of several products, including a backpack that sold for \$130.

"We realized that high prices were going to limit us to selling to a few select stores, but we didn't want that exclusivity. We knew that as our volume increased, we could lower our prices, which we've done

over the past four years. We're now at a price level where we give value to our customer and give ourselves a profit margin," explains DeMarco, noting that their backpack presently sells for \$59.

4. Test the market. A great way to find out how your product might be received is to test-market it. The feedback you get will help you set your price, adjust your marketing approach, and point out any necessary product modifications. Jumping into the market without pre-testing your product, DeMarco learned, can create problems. "When we first started out, we used to design new products two weeks before a trade show and hope people would buy them," she admits. "We didn't know if people would like them or what they would pay." The company has since changed its approach, and now develops prototypes of new products, which are sent to a half dozen retail stores for display and sale. "The feedback lets us know if we're on the right track with a new product before we invest more time and money," she adds.

5. Gather additional data. There are several other ways to test-market your product, says Joy Wake, former president of the Sacramento, California, Chapter of the American Marketing Association. Some entrepreneurs develop a series of standardized questions about their product, which they use to interview prospective customers at shopping malls or other busy retail areas. Others prefer to conduct a telephone survey. A third option is a focus group, in which, typically, a small group of people gather for a few hours to discuss your product, its price and benefits, and your company's services. A team leader asks questions and encourages group discussion, which can be taped for further analysis. If you need help developing your questionnaire or conducting a focus group, you might retain the services of a professional market research group, or get free advice from your local office of the Small Business Administration's (SBA) Service Corps of Retired Executives (SCORE).

6. Check these resources. Aside from conducting your own research, suggests Wake, visit your local public or university library, where you'll find a wealth of information about consumer habits and spending patterns, product pricing, industry trends, and general marketing information. Federal government agencies, including the SBA, are another excellent source of information, as are trade and business associations, which often publish their own journals and industry reports.

Market research requires a considerable amount of time, money and energy, but is well worth the investment. "Good market research helps minimize your costs of doing business," notes DeMarco. "If you design a product, introduce it, and it fails, you've lost time and money on that product--time and money you could have spent on something else, so there's a double loss. The sooner you can do your market research, the sooner you'll guarantee yourself you've got your ladder leaned up against the right wall. You'll have the right focus and be able to set your company's long-term strategies."

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