

All you have to do is ask

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Few entrepreneurs do extensive market research before launching or expanding their businesses. They may know who their competitors are and what makes their product or service different, but many never do anything as simple as talking to customers.

That's surprising considering 78% of respondents in a 2006 survey by the National Federation of Independent Businesses said that adding innovative products or services is important to their companies' success. And 83% reported they face tough competition in the marketplace.

Sounds like a case for research. So why aren't more entrepreneurs doing it?

"The tendency with small-business owners is to think they have the best thing since sliced bread," says Linda Darragh, director of entrepreneurship programs at the University of Chicago Graduate School of Business. "They automatically assume there is no competition. If they build it, they will come. That's not the way to pursue things."

Hiring a traditional market research firm to identify target markets, survey customers, run focus groups and analyze data can cost hundreds of thousands of dollars. But in the Internet age, gathering customer demographics, information on your competitors and industry trends has become cheap and easy.

There's a wealth of free information on government sites such as the U.S. Census Bureau (www.census.gov), including data on people, households, businesses and industries, and the U.S. Department of Commerce (www.commerce.gov), which provides economic and demographic data. PolicyMap (www.policymap.com), created by the Reinvestment Fund, an organization that finances urban development, maps neighborhoods by per-capita income, educational levels and unemployment.

Reference USA (www.referenceusa.com) can help you target companies based on employee size, sales volume, type of business and location. California Polytechnic University (www.lib.calpoly.edu) is home to a large collection of magazines, newspapers, online journals filled with business research.

But nothing, experts say, replaces firsthand feedback. "I say this all the time — you need to get out of your office and talk to your customers," Ms. Darragh says. "You need to understand where their pain is and solve it."

One of the most popular tools to arise from the Internet Age is online survey software, such as SurveyMonkey or Zoomerang, which can cost as little as \$200 and allows you to poll customers by e-mail.

But when using these applications, it's important to know how to get the best results possible, "Otherwise you're going to end up with a whole lot of paper that doesn't mean much," says Bonnie Richter, director of the Illinois Small Business Development Center at Harper College in Palatine.

Ms. Richter recommends surveying customers every quarter, using a sample size of 100. Other research professionals recommend a sample size of at least 200 to 300, depending on the number of subgroups you have and the margin of error you find acceptable. A typical response rate is 30%. If your response rate is low, use the analysis as just one part of your decision-making process.

"The surveys may not always be statistically valid but you can get a lot of great information," she says.

Michelle Elster, vice-president of Rabin Research, a Chicago market research company, cautions against this do-it-yourself method. That's not surprising, given her business, but she says survey software has limitations.

"You may have a small sample size or your questionnaire can be biased," she says. "That compromises the integrity of the data."

Without the support of a research professional, it falls to the entrepreneur to ensure a survey is valid. One way marketing experts say to make it more statistically sound is to pose neutral questions. For example, a restaurant seeking feedback on its new lunch menu should ask, "How do you feel about our new lunch menu compared to the old one?" rather than "Do you think the new lunch menu offers a better variety of healthy foods than the old one?"

Kathy Paddor, director of marketing for Crate & Barrel, began working with Rabin Research in 2003, when her company wanted to strengthen its position in the bridal registry market. Now the company surveys customers every quarter about how people shop in its stores, on its Web site and through its catalog, she says. Crate & Barrel declined to release sales figures.

"Research helps us understand all the decisions that go into buying a product," Ms. Paddor says. "It's a constant reality check."

DO'S AND DON'TS

Cheap and easy market research

Talk to your customers. That's the No. 1 piece of advice small-business experts and research professionals give entrepreneurs. Here are more tips for doing market research right:

DON'T LIMIT RESEARCH TO THE INTERNET

The Net is a great tool for finding data, but what you won't find online is firsthand experience: why your customers are buying certain products, how they are using them and what may interest them in the future. To find out, ask them.

TEST SURVEY QUESTIONS

Before pushing the send button, determine your objective. Is it to gauge interest in new products? Evaluate new markets? Refine questions to get useful answers. Run a trial with customers, employees or those who have expressed interest in your product. Ask neutral questions: Did the salesperson answer your questions? Were you helped in a timely fashion? Fine-tune as needed.

DON'T RELY ON TOO LITTLE DATA

A sample size of 100 or more will give you statistically sound data, but you can survey fewer people and still get good information. "A minimum of 30 people will start to give you a clue about what's going on," says Dawn Harris, a professor at Loyola University's Graduate School of Business. "But reach out to 50 to 100 people — you'll be in a lot better shape."

TALK TO STRANGERS

Don't rely on family and friends to tell it like it is. You need as much objectivity as possible.

ASK LOTS OF QUESTIONS

Retailers can ask shoppers how they plan to use the products they have purchased. Sales people can ask customers about their style preferences. On the flip side, use rejection to your advantage. Call people who didn't buy your product and ask them what they got instead, how that product met their needs and what it would take for them to switch to your product in the future.

MAKE RESEARCH A HABIT

The beginning of a business venture isn't the only time for research. Keep in touch with your customers after a sale, when launching a new product or fine-tuning an existing one, and while branching into a new market. That way, you avoid becoming obsolete. Remember, research keeps you current.