

Video Transcript

How to Do Market Research! By Two Cents

I have an exciting investment opportunity only for Two Cents viewers: Beard Oil for dogs! I call it Groomio, and it's a guaranteed success! How do I know? Trust me! I just feel it in my gut! No serious investor will trust their money to your gut. And you shouldn't either.

No matter how good you think your idea is, before you mortgage your house or quit your day-job, you owe it to yourself to thoroughly investigate its market viability—that is, a realistic, data-driven prediction on whether it can succeed in this marketplace. This applies to Fortune 500 companies and handmade soap sellers on Etsy. One way or another, the market will judge your product...wouldn't you rather hear the verdict before you sink your life savings into it?

Ruth here has been giving her homemade artisanal soaps to her friends and co-workers as gifts for a while now, and getting a lot of positive feedback... enough that she's actually entertaining the idea of starting a small business. But before she retires from her office job, how can she know whether there's really a market for this? The answer is market research.

Marketing research companies generate exhaustive reports on pretty much any industry you can think of, including the Handmade Global Soap Market. They include findings like market size, growth rate, demographics, industry leaders, even how facial scrubs perform vs. liquid body washes. And it's all available to Ruth as a downloadable PDF for... \$4,000. Maybe Ruth can afford that, but I can't. Fortunately, there are plenty of cheaper options.

I found this free report from the non-profit American Pet Products Association, which says that U.S. spending on pet products and services grew at an average rate of about 5% annually, comfortably above the GDP average, and that pet ownership is increasing, especially among millennials, with dogs leading the way. This is all good news for Groomio, because the bigger a market, the more potential customers, and the faster it's growing, the more new customers—who are much easier to sell to than older customers already stuck in their ways. The report also tells me that the average dog owner spends \$84 a year on grooming supplies and services—very useful info as I decide on a price.

A major part of market research is analyzing competitors. If Ruth wants to get into the homemade soap market, she needs to know what the successful brands are, how much they cost, what are the most popular ingredients and scents. She can even request credit reports on these companies for a fee (unlike personal credit scores, business credit scores are publicly

available) which will tell her whether they're financially stable, and how much risk there is in the industry.

Search engines and social media have made collecting this type of information easier than ever. A simple Google or Twitter search will often tell you who the major players in an industry are. With a GoogleAd account you can see how much competition there is for your keywords. And Google Trends is an easy, kind of fun way to find out what's hot and what's not. (Seriously, you can burn of lot hours here.) I can see that the search terms "dog grooming" and "beard oil" have both grown slightly over the last 5 years. I can tell what times of year they're most on people's minds, what geographic regions they live in, even what related searches tend to overlap. This can all be useful when designing my product and advertising strategy. All of this is considered secondary market research, information that already exists that you can purchase or find for free. But if you're really serious about success, you need to do primary market research, which means collecting data on your own. It's often more expensive and time-consuming than secondary market research, but it always saves you money in the long run, because you narrow down your audience and focus only on the features that they're interested in. For example, Martin wants to introduce a new sandwich at his popular food truck: a double-bacon BLT with garlic aioli and truffle oil. Before rolling it out, he asks his existing customers to fill out a survey, posts some polls on his company's social media accounts, and just to be really thorough, pays a web service to get survey responses from the types of people who frequent food trucks. Lo and behold, he finds that people who tend to like bacon DON'T like truffle oil (because it's disgusting). He almost wasted a lot of money on an expensive ingredient that would've actually lowered sales. Thanks, Primary Market Research!

Many experienced market researchers will tell you that when it comes to collecting data, nothing beats face-to-face conversations. That's because customers are humans with emotions, and the most successful products are ones that solve a pain. "Market pains" are anything that causes frustration or inconvenience in a consumer. It's a problem that your product could potentially solve, and the best way to find it is talking directly to people. Big companies conduct interviews with lots of people of varying demographics and regions, but just because you can't afford that doesn't mean you shouldn't talk to people when you can. But—don't bother asking your friends and family! They're likely to be nice and encouraging when what you need is brutal honesty. For instance, Ruth starts taking her handmade soaps to the local farmer's market, and makes sure she strikes up a conversation with anyone who'll give her the time. She notices a trend in people who say they wouldn't buy handmade soap online because they're concerned about the packaging waste. Aha, market pain! She decides to make sure all her packaging is made from recyclable materials—and that it's mentioned prominently in the advertising.

For the truly introverted entrepreneur, the internet does offer a sneaky shortcut to finding market pain: the dreaded comments section. If your competitor has one, you'll find people happy to complain about drawbacks or features they wish the product had. There's even a successful electronics company that has made its whole business model developing products based on complaints in Amazon reviews. "I love this nose hair trimmer but I wish it was waterproof!" Bam, market pain. This is a very generalized overview of market research. There's a lot more to it: industry lifecycle, market penetration, federal regulations—Oh shoot! I forgot to check if animal cosmetics require FDA approval! Thankfully, there are a lot of resources out there.

The Small Business Administration provides lists of organizations that offer free market reports, and can help connect you with a counselor or advisor. But be careful of business coaches who think their job is to just be your cheerleader. While this encouragement is nice, you don't want to be encouraged off a cliff. Ooh! The results of my survey are in! The percentage of dog owners who say they'd be interested in Groom is... 4%. Maybe I shouldn't take out that loan just yet. And that's the most important part of market research: objective honesty. No matter how much you love your idea, if the research tells you otherwise, well... that can be a good thing! It means you just saved yourself a lot of money and effort. And freed up your time to develop an idea that will work. And that's our two cents!

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