

Marketing Research



value-added & alternative agriculture

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OVERVIEW

The purpose of market research is to determine whether or not there is a market of sufficient size and profit potential to justify a business investment. Fortunately, in today's Internet world, it is quite easy to access the statistics and other data that a potential entrepreneur needs in order to make a sound business decision.

DETERMINING RESEARCH NEEDS

Market research begins with a plan. Entrepreneurs should "begin at the end," meaning that they should look at what types of decisions they will be making as a result of their research efforts. Typical decisions are: a decision whether or not to begin a venture; a decision regarding market expansion; a decision regarding product expansion; a decision regarding location.

Once the end decision has been defined, the entrepreneur now can begin to look at what information is needed in order to make the decision.

In general, entrepreneurs will need information in at least one of the following categories:

- Demographic information about the potential target market
- Market analysis information about the growth potential for a certain type of enterprise
- Case study and/or budget data that outlines others' experiences and cash flow projections for a similar enterprise
- Competitive activity data

FINDING DEMOGRAPHIC DATA

Demographic data takes a look at the actual population numbers for a target segment, income information and other potentially relevant characteristics such as educational level, marital status and family size.

Entrepreneurs can use market research to help them identify a segment that shows good market potential. Much "secondary research" – research conducted by a the government or an organization that is made available for others' use – exists regarding the typical buying characteristics of segments that have an interest in buying value-added and/or alternative agriculture products. Internet sources for this data are listed at the end of this fact sheet.

ESTIMATING GROWTH POTENTIAL

At the heart of any business opportunity is the potential for the market to grow. There are many different ways to estimate market growth potential. One approach, called the *intuitive method*, is the result of a gut feel or "sixth sense" that a particular market opportunity has potential. This method may offer a good starting point, but it may be dangerous as the sole method by which a "go/no go" business decision is made.

The "*subjective method*" uses a checklist to identify possibilities that a market opportunity might hold. Items on the checklist can include access to retail markets, competitive activity, start-up costs, availability of labor, and profit potential. This method can help identify possible pitfalls, as well as potential opportunities.

The “*objective method*” gathers available market data to determine the market potential of an opportunity. Total market potential can be determined as:

$$MP = n \times q \times p$$

where **MP** is Market Potential for the entire market, **n** is the number of buyers in the market who would possibly buy the product(s); **q** is the quantity purchased by the average buyer; **p** is the average price per unit.

Entrepreneurs can then estimate what their potential share of the market is, and multiply the total market potential number by this share estimate.

CASE STUDIES AND BUDGET DATA

The Center for Value-Added and Alternative Agriculture is currently compiling relevant case studies that can assist entrepreneurs in their business decisions. Access to more generalized information and case studies regarding specific crops are available at the web site listed in the Resources section of this fact sheet.

COMPETITIVE ACTIVITY

Entrepreneurs need to take a look at the level of competitive activity in their market area. This includes other local farm enterprises, as well as the larger activities of corporations. One example would be to consider the impact that Wal-Mart’s entry into the organic food market will have on locally grown organic and sustainable agriculture. Similarly, other business decisions by major retailers to include specialty crops and products in their stores will challenge the small producer to find creative ways to develop and sustain a profitable market segment.

Competitive activity is often a good indicator of market potential. In other words, if other businesses are already engaged in selling certain types of products, then there is a good chance that market opportunities exist for others in the same market.

On the other hand, producers need to be careful about *oversaturating* a market: that is, adding too many producers who offer the same type of product. Oversaturation results in reducing the available market share and profit potential for all of the businesses that have targeted the same customer segment. One way to avoid oversaturation is make sure that you have identified – and targeted – a niche market that has a clearly unmet need or want.

RESOURCES

A full range of NC demographic data can be found at: <http://demog.state.nc.us>

Case studies and access to budget data are available at: <http://www.cals.ncsu.edu/value-added>

An explanation of how to estimate retail market potential can be found at: <http://www.umext.maine.edu/onlinepubs/htmpubs/HBBseries/3012.htm>

NC Department of Agriculture for general information about agricultural conditions and opportunities: <http://www.ncagr.com>