

Market Analysis

This is *undoubtedly* the most important section of your business plan. After completing careful, thorough research, you must answer the four key questions discussed on pages 36 through 39.

1. What do you know about your target market?

Who are your potential customers?

Where are they located?

How large is your target market?

What are the needs and wants of your target market?

What criteria do they use in making their buying decisions?

The description of your target market should be very specific. Are your potential customers individual consumers, businesses or both? If your target market is consumers, what is their demographic profile: gender, age range, income range, education, etc? If your target market is businesses, what type are they – retail, manufacturing, construction, etc.? Where are they located? What size are they in terms of employees?

Be realistic in estimating your geographic market area and the number of potential customers. If you own a neighborhood convenience store, for example, you will attract customers from a limited geographic area. However, if you operate a specialty furniture store, you will draw customers from a much larger geographic area. Businesses that have an Internet presence have the potential for vast geographic coverage.

If your target market is individuals, demographic data from the U.S. Census can help you in estimating the number of potential customers in your geographic market area. Consult www.census.gov.

The most critical step is to understand your customer's needs and to meet those more effectively than the competition. Constantly focus on the customer and what he/she needs and wants to buy, not what products or services you need or want to sell. You must put your personal preferences aside!

Examples of customer needs that you might serve include convenience, education, recreation, safety and concern about personal health or appearance. Businesses that meet the customer need for convenience, for example – very popular in our hectic world – include fast food restaurants, drive-through car washes, errand services and same-day photo processing or dry cleaning services.

Customer needs and wants are related but not synonymous. The wants are the customer's personal desires for satisfying their needs. For example, all adults have a need for recreation, but if three individuals each had \$20 to *meet their need...*

One may *want* to go out to dinner.

One may *want* to go to a movie.

One may *want* to go shopping.

Also, you must determine what criteria are important to your target market in making buying decisions. Specifically ask potential customers when you do your market research; don't make assumptions!

A common mistake is to assume that price is the key factor used by potential customers in making buying decisions, but this is often not true. For example, when shopping for specialty services, such as child care or auto repair, customers are typically more concerned about reputation, quality and reliability.

In general, learn as much as you can about your target market. The better you understand your potential customers, the better your chances of success in meeting their needs more effectively than your competition.

2. What do you know about your competition?

Who are they?

Where are they?

What products/services do they offer?

How are their products/services priced?

What are their strengths and weaknesses?

How do they promote their businesses?

In identifying your competition, keep in mind two key points:

Your competition may be located outside your geographic market area.

For example, a women's clothing business competes with similar local businesses plus Internet businesses, mail order companies and out-of-town factory outlets.

Your competition is any business that serves the same customer need for the same target market.

For example, a miniature golf course competes with other courses plus other businesses that serve the customer need for recreation for adults and children in the same geographic market area. Therefore, competition may include movie theaters, bowling alleys, roller skating rinks, etc.

The competition's strengths and weaknesses are also known as *competitive advantages* and *competitive disadvantages*. A competitive advantage is any characteristic of the product or service that makes it more appealing to potential customers than what the competition is offering. Conversely, a competitive disadvantage is a characteristic that makes the product or service less appealing. Realistically, every business has both competitive advantages and disadvantages – including yours!

Examples of competitive advantages include quality, variety, uniqueness, convenience, performance and price. Examples of competitive disadvantages include lack of name recognition, poor location and limited distribution.

Again, learn as much as possible about your competition to improve your chances of success. Review the suggestions for researching your potential competitors on page 33.

3. Is there an unmet customer need in your line of business in your geographic market area?

Your goal is to find an unsatisfied customer need in your line of business in the geographic area that you want to serve. This is called a *market niche*.

If you discover that the customer need is being adequately met by the existing competition, you can consider a different line of business and/or a different location, or you may decide against self-employment.

4. If there is an unmet need, what competitive advantages will make your business successful?

Based on what you know about your target market and the competition, you choose a position in the competitive environment. This decision-making process is called *positioning*.

To attract customers, you must offer them a reason to choose your business to meet their needs. This reason is called your competitive advantage. Be aware that you may have more than one competitive advantage. For example, you might position your business to attract customers based on both your convenient location and unique services.

EXAMPLE:

Glenna Brownell is interested in starting a retail store that offers used household goods, such as furniture, dinnerware and accessories. Based on research, Glenna determines that quality and price are key factors used by her target market in making their buying decisions. She researches the competition and learns that there are six antique stores in her geographic market area that offer high-quality

used merchandise at high-end prices. Also, she finds three competitors – thrift stores, flea markets and garage sales – that offer low-quality, low-priced goods.

Based on what she knows about her target market and competition, Glenna *positions* her business to meet the customer need for medium-quality, medium-priced merchandise. This is her **market niche**, or unique place in the competitive environment. Therefore, her competitive advantages are her niche strategy plus the location she chooses near the successful antique stores that are investing time, effort and money to attract her target market.

Try to avoid these common errors in positioning your business:

- Not choosing a competitive advantage at all
- Don't assume *If I build it, they will come*. You must provide motivation by offering your potential customers an appealing competitive advantage.
- Basing your decisions about your competitive advantages on assumptions about your target market and competition rather than solid research
- Not being honest and realistic about the competitive advantages and disadvantages of your own business
- Choosing an inappropriate competitive advantage

Your decision should be based on two considerations: (1) what competitive advantages are important to your potential customers and (2) what competitive advantages are being offered by your competitors. Look for a gap or niche.

- Failing to aggressively and consistently promote your competitive advantages to your potential customers in all of your marketing messages – business card, brochures, website, ads, etc.

Evaluating your business idea is the most critical area of determining the feasibility of self-employment. If potential customers are not interested in the product or service you want to offer, you simply don't have a viable business idea. Therefore, you must devote adequate time and energy to the four key questions of market analysis.

**Now, review the Sample Business Plan Pages 10-11
and complete Worksheets 2-5..... Pages 70-73**