

Do Your Own Market Research

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Innovation, experimentation, and change are not new to farmers. Over the years, most farms have been through many changes in production, marketing, and management strategy. Interest in developing new markets and nontraditional agricultural enterprises, however, has risen dramatically in recent years as farmers look for new ways to generate income from their farm resources.

Typical Challenges

As examples of farmers facing marketing decisions, we offer several families—fictional, but based on composites of real farmers.

The Evans family has been in the dairy business for 48 years. “When my dad started in dairy,” says son Paul, “he was milking 40 cows. Now we milk 85, and we do a good job. But with folks moving out here from the city and property taxes are going up all the time, we’ve been thinking about ways to diversify to keep the farm in business. We’re thinking about putting in a roadside vegetable stand to take advantage of all that traffic that goes by. But we’ve got a lot of competition already—we don’t know whether the area can support one more roadside stand or not.”

Bill and Colleen Ryan have been raising free-range chickens on a small scale for the past few years. This year, they have been selling broilers along with their market vegetables at the Farmers’ Market every Saturday. “It seems we just can’t begin to meet the demand for fresh, locally raised

chicken,” says Colleen. “We’re considering building a small-scale slaughter facility next year and tripling our production of broilers. We’re just not sure if we’ll be able to sell that many birds at Farmers’ Market alone.”

Don Delevan raises beef cattle on his 400-acre ranch, and sells them at the auction house 50 miles away. He’s interested in developing his own label and marketing his beef as high quality, lean, and free of chemicals, to customers who will pay a premium price. “I need to find out where my customers are and how I can get my product to them. I know they’re out there somewhere.”

Evaluating New Ideas

You also may be faced with evaluating a new idea—one you think may generate higher profits for your farm business. But before launching any new enterprise, look carefully at all the factors in starting up and developing the idea. Five key questions should be answered before committing dollars and time to a new venture:

1. Is there a market for this new enterprise? Will you be able to sell enough of your new product or service at a price above your cost of production? In each of our examples, critical questions about the market need to be answered before we can judge the feasibility of the idea.
2. Is the new enterprise consistent with your family’s goals and your

farm business goals? If you don't know what your goals are, or if family members disagree about goals, you will need to sort this out before proceeding with the idea.

3. Do you have the resources needed to be successful in this enterprise? A complete inventory of your resources should include:

- Land (soil and water)
- Buildings and equipment
- Labor and management skills
- Time
- Sources of information and assistance
- Credit
- Suppliers, processors, and distributors.

Try to take advantage of underutilized resources, and be wary of enterprises whose peak labor requirements coincide with existing labor needs.

4. Will it be profitable? You will need to carefully project income and expenses for an "average future year" to determine whether revenues will be higher than projected costs of production.

5. Can you afford to get into this business? Initial investment and cash flow may be problematic even if the enterprise is a profitable one. A new enterprise may take some time—up to several years—to become profitable.

It is surprising how often people jump into a new venture without taking a good, hard look at feasibility. Unfortunately, many end up wasting precious resources that could have been put to good use with proper planning. Answering each of the questions listed does require quite a bit of homework. But remember, the time spent in planning is one of the best investments you can make in your farm business.

Why Do Market Research?

Perhaps the most challenging problem in developing new enterprises is

assessing the market. Marketing may be new and somewhat intimidating for many farmers who may not have had an active role in marketing their products in the past.

The first step is to understand that there is no magic to market research. It is not a crystal ball that predicts future markets with certainty. It can provide information, however, that will make projections about the future far more accurate, and it can help immeasurably in developing a successful marketing strategy.

Market research has two goals:

- To project the volume of sales and the price you might reasonably expect to achieve with a new enterprise, which is information you will need to analyze profitability and cash flow potential, and
- To gather information about potential buyers and competitors that will help in developing a marketing strategy.

Also, you don't need any esoteric knowledge or advanced technical training to do useful market research.

Like any other information-gathering process, it is a matter of asking the right questions and looking in the right places for the answers. Here are some important questions to ask:

What is the *total market size* presently for this product (or service) within a given area?

How many *competitors* are there for this market? What are their strengths and weaknesses? What type of buyer are they targeting?

What *prices* can you expect to receive for a given level of quality?

What *trends* do you see in consumption, competition, and pricing?

What are the *characteristics of buyers* of this product or service? Age? Income level? Lifestyle? What are they looking for? Where are they looking for it? And how can you do a better job than your competitors in meeting their needs?

What proportion or *share* of the total market might you expect to capture?

Market Research Techniques

There are two general types of market research: primary and secondary.

Primary research involves going out into the real world and gathering information for yourself—by observing people, counting cars or pedestrians, doing surveys, conducting interviews, or other direct means.

Secondary research involves studying data that has already been collected and published by somebody else.

Chances are you will need to use both types of research to understand the market for your particular enterprise.

Secondary Research: Using Existing Data

Despite the name “secondary,” this type of research is described first because it is often the easiest and cheapest way to obtain the following information.

1. Population and demographic data about the number of people within a given geographic area and their characteristics, such as income level, age distribution, level of education, and household size. This information is important in estimating the total size of the market, and in knowing how many of what type of customers you have access to. Demographic trends within your area can also be analyzed.

2. Information about your local and regional economy, which can tell you about the numbers of various types of



Primary research means gathering the information you need by asking questions yourself. Surveys, like the one being taken here at a roadside farm market, can be used to solicit information from potential buyers about their buying patterns and preferences. (William E. Carnahan)

business establishments, availability of support services, credit sources, zoning, and other regulations that may affect your marketing strategy.

3. Production data that will show the existing level of production of the product or service you are considering, as well as production trends. If your idea is new or simply not a major commodity for your region, however, little information may be available.

4. Consumption data showing the per capita level of purchases by consumers for a given product or service. Again, this information may not be available for your particular enterprise.

Sources of secondary data are numerous, and include public libraries, Census Bureau, Chambers of Commerce, universities, local transportation departments, planning boards, economic development agencies, and State Departments of Agriculture. Extremely useful information can often be found in the most unlikely places. In fact, the most difficult aspect of secondary research is figuring out where to find the information you need.

Primary Research: Do It Yourself

Because you are unlikely to find all the answers to your marketing questions using secondary data, plan on rolling up your sleeves for some real do-it-yourself market research. Primary research is especially important when you are considering an innovative enterprise, a new market, or a local market for which there is not much published data. This research can be extremely elaborate, sophisticated, and expensive, but it also can be very simple and inexpensive. Having a small budget is no excuse for not doing your marketing homework. It just means you will need to be creative in developing the most cost-effective method for collecting the

information you need. Some common methods for conducting primary research include the following:

Observation (counting the number of things or events that may be relevant to your marketing situation). For example, the Evans family in our example might want to observe and count the number and location of roadside stands within a 30-mile radius of their farm, product lines, number of customers per hour, rate of traffic flow past the stands, and the rate of traffic flow past their own farm at various times of the week.

Written Surveys. You can use surveys to solicit information from potential buyers about individual buying patterns, preferences, and unfulfilled needs and wants, and to ask other questions that may affect your marketing success. For example, Bill and Colleen Ryan would do well to survey their present Farmers' Market customers to find out how often and in what quantity they would like to purchase fresh broilers next year. They might also use the survey to find ways to improve their service to customers.

A survey must be carefully designed to yield useful information, and its distribution must be well planned to avoid biasing your results. Some tips for good survey design are:

- Keep it short. A single sheet of paper printed on both sides is usually plenty.
- Phrase your questions so that you receive clear and meaningful answers. For example, instead of asking "Would you buy more broilers from us next year if they were available?" the Ryans might ask "How many 3-lb broilers would you expect to purchase from us each month between June and October?"
- Use multiple choice questions rather than open-ended questions whenever possible to make it easier to

fill out the survey and to analyze the results.

- Don't be afraid to request personal demographic information. For example, information about your respondents' ages, income levels, and areas of residence can be valuable. You may even want to ask for an address for your mailing list. However, most people are sensitive to the way in which this information is solicited. Be sure to *ask* for, not *demand*, the information, and explain how it will be used (perhaps "to serve you better"). Provide multiple-choice categories of ages and income rather than making people reveal their exact age and salary.

The procedure used to distribute the survey is critical in determining how to interpret the results. For example, if Don Delevan wants to find out about consumer interest in purchasing lean, chemical-free beef, he is likely to get different responses depending on whether he surveys shoppers at the local health food store or at the supermarket. Either approach would be valid—Don simply needs to be careful about interpreting his results and making projections based on his particular sample.

Test your survey on a small number of "guinea pigs" first. You will be surprised at how often your questions are misunderstood. A simple test usually results in great improvements in the survey's usefulness.

Telephone Surveys are increasing in popularity. They can yield much information quickly and can be relatively inexpensive. Don Delevan might use a telephone survey, for example, to reach 50 supermarket meat buyers within a 200-mile radius and inquire about their interest in lean, chemical-free beef, their delivery schedules, packaging requirements, and so on.

In designing a telephone survey, follow the same principles described for written surveys, but include only the most critical questions and keep them short. Work from a written script so that you are sure to ask questions consistently. Before calling, prepare a form for recording responses efficiently and, as always, test your survey and make any needed adjustments.

Personal Interviews can be extremely informative and are the method of choice when dealing with a limited number of potential buyers. A market research interview will often be your first step in establishing working relationships with wholesale buyers. It will not only provide you with detailed information on the buyer's policies and preferences, but also will provide the buyer with that all-important first impression of your professionalism and commitment. Be prepared with a list of specific questions and with information about the product or service you are proposing to provide. Be sure to leave a calling card. But above all, don't make commitments you cannot live up to. There is nothing that will ruin a good marketing relationship faster than a broken promise.

Personal interviews can also be used to sample potential consumers in a variety of situations. For example, the Ryans could conduct personal interviews with their Farmers' Market customers rather than having them fill out a written survey. Again, the method of selecting people to interview will affect the results.

Test Marketing involves offering your product or service on a limited basis in order to evaluate potential sales; it is especially important when your product is new and unfamiliar to most of your customers. Don Delevan might conduct a market test as simple as offering tastes of his lean beef to customers at the fair, or as elaborate

as a 3-month sales campaign in cooperation with a regional supermarket chain.

Test marketing will obviously be impossible until you are producing a product or service in some quantity. The best use of test marketing is as a followup to some of the previously discussed market research techniques, to fine tune your marketing strategy, or to provide better information on costs and returns. It is also a useful strategy when evaluating minor changes in your enterprise, or when attempting to tap into a new market with a product or service you are already providing.

Evaluating the Competition

Studying your competition will help to determine the volume of similar products and services already in the marketplace, the strengths and weaknesses of your competitors, and the various "segments" of the market—that is, the specific types of buyers—that are being served by each competitor. This information may help you identify a "niche" in the marketplace where you can gain a foothold by outdoing your competition in serving a particular market demand.

You can learn about your competition in a number of ways. Visit your competitors' businesses, use their products or services, survey their customers, or interview them directly if possible. Some competitors may refuse to share any information with you, but you may be surprised to find some that are quite helpful. They may have suggestions that can decrease direct competition, or that can even be of mutual benefit.

Plan your Market Research Strategy

Market research can be simple or complex, cheap or fantastically expensive, depending on your needs

and your budget. Make sure your research is targeted and cost-effective by following these guidelines:

First, allocate a reasonable amount of your time and money to this effort, and plan to work within that allocation. What is "reasonable" depends, of course, on your judgment of the risks and rewards. Second, develop a list of specific questions about your market that you feel you *must* answer before proceeding to develop the new enterprise. Third, define the specific type of data that you need to collect in order to answer those questions. Fourth, determine what data is already available from secondary sources. Fifth, determine what primary research techniques you will use to collect the data not already available.

If your plan appears to fit within your research budget, you are ready to implement it except for one important step: **Seek assistance!** You can save a tremendous amount of time and energy by enlisting the aid of competent professionals, and you need not spend a dime to do so. Find a small business development program in your area, whose staff can review your market research plans, suggest tactics, and even help in developing and analyzing surveys. Find a librarian who can help track down the secondary data you need. Your local Chamber of Commerce or Cooperative Extension office can identify local resources to help you in designing and carrying out your market research.

Unless you can hire a consultant, you will have to do most of your own marketing homework yourself. But with some planning, assistance, and hard work, do-it-yourself market research will pay off in improving the odds for your new enterprise. And it is a skill that you will use over and over as your farm business grows into the future.