



Briefing Note for CLA members

Business Planning (7)

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In order to assist members during the agricultural transition, the CLA has produced a series of briefing notes on business planning. These provide information on what members need to consider when they are either developing their existing business or are considering a new business venture.

Market research and analysis

For a business to be successful, it needs to know about the market it is seeking to enter. It could be that the entrepreneur has identified a gap in an existing market or there is potential to create a new one. But to identify either opportunity, the business plan needs to research how the targeted market will operate and analyse the potential benefits or disadvantages of the market place. It is only through this research that the business plan can set out a series of realistic sales assumptions which will be of interest to potential investors.

This chapter explores the different types of research that can be undertaken and how the market can be analysed. It also provides guidance to the main areas that need to be considered in terms of selling the product or service in the market.

Market research

Market research is critical. The business plan will need to set out how both quantitative and qualitative research will be undertaken.

The principles of market research

Market research is a fundamental part of preparing to launch a business as well as assessing external factors that may affect the business. Therefore, it is a crucial part of the business plan.

Researching the market the business is intending to enter is paramount to making sure the business is going in the right direction. It should be used in answering the following questions:

- Will anyone be willing to buy the product or service?
- How many people out in the market will actually buy it and does this equate to an attractive and profitable market?
- Who are these potential customers?
- What are they currently using and how much are they willing to pay?

- Do they really like the product and do they have to buy it?

Without the answers to these questions, the business may be operating for six months before realising it has been doing completely the wrong thing. As such, it is important to get it right from the beginning to ensure that the business grows at its maximum capacity and achieves its full potential.

Market research is a broad term and there are different techniques that can be used. However, there are usually two forms: quantitative and qualitative.

Quantitative market research

Quantitative research is defined as research that involves statistical analysis and mathematics. As such, quantitative research should be used whenever a numerical output is required.

For example, it is more appropriate to use quantitative data when calculating the size of a market for the product on offer. This would mean asking 1,000 potential customers whether they needed the product.

From these 1,000 responses, there may be 780 positive answers, which is 78 percent of the total, suggesting a high proportion in favour. Assuming that the market size is 10,000, this would suggest that 7,800 potential customers would buy the product.

This can then be extended to calculating the value of the market. Assuming that the product costs £5, the total market value for the product is 7,800 multiplied by £5 meaning that the total value of the available market is £39,000.

Qualitative market research

Qualitative market research differs from quantitative research in that it is not numerically based but opinion based. Qualitative research can be used to explain or understand quantitative research as well as offering an insight in helping to improve the product by finding out how people feel and what they think about the product or service. It is also useful in identifying trends in the market. In effect, through using qualitative research it is possible to find out why the customer would buy the product or service.

One common form of qualitative research is the focus group where a business gets a number of its target customers together (potentially six to 10) and presents them with the new product.

Members of the focus group will then offer their individual views on the product and it is from this feedback that the business can then tailor the product to meet the needs of the customer. In the business plan, this type of evidence is crucial in that it sets out for the potential investor that the product has a market and can sell, thus ensuring the potential for growth.

The advantages of quantitative and qualitative market research

Inevitably, there are strengths and weaknesses to each option. Quantitative analysis will give the business a clear answer to the attractiveness of the market and the probability of success of the final outcome for the new business.

Qualitative analysis, on the other hand, helps to bring a sense of colour to the insights derived as well as helping to build a bigger picture of the potential market which will be more useful when creating the marketing tools that will be required. Importantly, it aids an assessment of where to place the product in the market as well as fixing the price of the product.

Ideally, the business needs the results of both quantitative and qualitative research to be able to gain a reliable picture of the market as well as being able to focus the proposal in the business plan.

However, one immediate problem that may arise is that many new businesses will have little or no experience of marketing. They may be good at other things and particularly in terms of product design and manufacture but they simply are not marketers. Indeed, some may not even realise that executing a properly defined market strategy is essential to the ultimate success of the business and if there is no clear way forward set out in the business plan, the plan itself will fail.

Analysing the market

Knowing the market in which the business either operates or will operate is crucial and, therefore, is a fundamental part of the business plan.

The marketing component of the business plan should include a budget for time and money. It will need to set out a timetable and a professional website that attracts visitors and makes it easy for them to learn more about the business and the products and services on offer. The website should also be used as a platform for the selling and purchasing of the product. This can be done primarily through PayPal.

The market analysis section needs to address the following areas:

- **Industry description and outlook**
 This part of the business plan needs to include detailed statistics that define the industry including size, growth rate, trends and outlook. It also needs to establish the target market and establish the ideal customer base. This data should include demographics on the group being targeted, including age, gender, income level and lifestyle preferences. It also needs to include data on the size of the target market, the purchase potential and motivations of the market and show how the market can be reached.
- **Market test results**
 The results of the market research conducted (see 7.2) need to be set out and include the testing process used with supporting statistics set out in an appendix to the plan.
- **Lead time**
 Lead time is the amount of time for an order to be fulfilled once a customer makes a purchase. This is where information on how long it will take to meet individual orders needs to be set out.

- **Competitive analysis**

It is important to establish who the competition is with the following two questions being answered:

- What are the strengths and weaknesses of the competition?
- What are the potential pitfalls preventing the business entering the market?

- **Why there is a gap in the market and how to exploit it**

Many business ideas start through a perceived gap in either an existing market or the creation of a new market. However, it should be stressed that if there is a gap in the market, the question as to why needs to be answered. It may very well be that no one has recognised the potential for a new product or service. However, it might also be the case that a particular market is not being served by the competition because it has found it impossible to run a viable business in that particular market segment.

- **Use of the internet**

Given that a considerable amount of the market analysis section of the business plan will rely on raw data, the internet is the most suitable place to start. The internet can be used for research on demographic trends, the potential competition as well as conducting market research.

- **Being the customer**

One of the most effective ways of assessing the opportunities among the target market is to look at the business's products and services through the eyes of a customer. Are there problems that need to be resolved and how can this be achieved? In addition, how does the competition solve the same problem and how can the business do the same but more effectively?

- **Summary of the results**

It is often usual to include a brief summary of the market analysis section. This allows the reader to see what is to come and helps him or her focus on the more salient points quickly.

- **Use of visual aids**

Information that is highly number driven, such as statistics within the market analysis, tends to be easier to grasp when it is set out visually using a series of charts and graphs. As importantly, it tends to be easier on the eye as well as helping the reader of the business plan to focus on the more important points being made.

- **Being concise**

The most important data and results in the market analysis section need to be at the forefront of the business plan, with support documentation and more detailed statistics placed in an appendix.

- **Relating back to the business**

All the statistics and data incorporated in the market analysis must relate back to the business and the products and services being offered. Therefore, it is important that

when the target market's needs are set out, the focus is on how the business will meet those needs.

It will be necessary to provide in the business plan a marketing budget that includes sufficient resource to be able to pay for professional marketing advice. In addition, the marketing budget needs to account for how marketing can be done by the business.

If the marketing is to be done in-house the business needs to budget for the time it will take to achieve the goals of the marketing plan. One major problem that often arises is the failure of the business to account for the time it takes to keep the business's website up to date and relevant.

The same principles with regard to sufficient planning relate to the use of external marketing professionals. The marketing plan section of the business plan needs to set out the costs and timetable and build this budget into the overall plan.

Questions to consider

The business plan needs to describe the specific activities that will be used to promote and sell the products and services on offer. Often, this is the weak link in business plans although it is one of the most important sections. Therefore, it is important that this section is both realistic and achievable.

A strong sales and marketing section means that the business has a clear idea of how the product and services will actually get to market.

So, the sales and marketing section of the business plan needs to answer the following questions:

- How does the business plan position the product or service in the market place?
- Who makes up the customer base? This needs to include details of customers who have shown an interest in the product or service as well as explain how the business will seek to attract new customers.
- What is the pricing policy? How much will be charged for different customer segments?
- How will the product or service be promoted? The business needs to identify the sales process methods, such as direct marketing, advertising, PR, social media and e-sales.
- How will the business reach the customer base? What channels will be used within the distribution chain and who else needs to be involved?
- Does the business have a sales plan and which sales methods are to be used? What is the most effective sales method – by phone, the internet, face to face or through retail outlets? Is there one sales method or many that can and should be used?



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