

# Writing a Business Plan - One Step at a Time

*A step-by-step system for new entrepreneurs.*

## **Booklet 5 - Market Research**



### **Market Research**

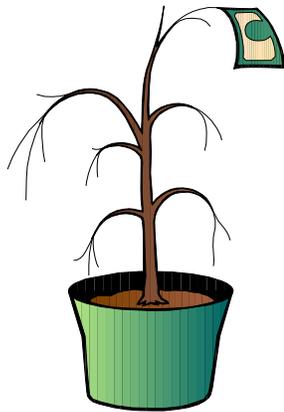
Before collecting all the information required to complete your business plan, it is necessary to determine whether there is a “market” for your product or service.

**Your “market” consists of people who might become your customers.**

**Your “market share” consists of people who are your customers.**

### Worksheets

- 5-1 Your Business
- 5-2 Market Analysis
- 5-3 Where Do Your Customers Come From
- 5-4 How Will You Sell to Your Customers
- 5-5 Letters of Support or Testimonials
- 5-6 Major Sales Groups
- 5-7 Product or Service
  - Category 1
  - Category 2
  - Category 3
  - Category 4
  - Category 5
  - Category 6



OR



Marketing is one of the most important activities in your business. Business consultants will tell you that the average new business will need to spend 90% of their time in the first year doing marketing. This may sound too high at first but becomes more reasonable when you consider all that marketing includes. **“Marketing”** is everything that you do to attract or keep customers. It includes advertising and promotion plus image, packaging, customer service, cleanliness, location, convenience, attitude ..... The list goes on but the point to consider is this. “Everything you do affects your business. In order to attract and keep customers, you must continually examine everything you do in your business from your customer’s point of view.”

**“Market research” is simply a way to learn about the people who might buy from you.**

It will not give you perfect answers but it will give you a better idea of where your product or service will fit into the existing marketplace. Because each business is very different, there are a variety of ways to do market research. Some will work for your business and others won’t. Gather as much information from each source as you can. You will need to include the results in your business plan. More importantly, it will help you make better decisions and plans for the future.

### **Non-Profit Organizations with staff members that can assist you:**

Statistics Canada  
Community Futures Business Development Centers  
Canada Business Service Center  
Public or University Libraries  
Provincial Department of Economic Development  
Regional Economic Development Authorities  
Chambers of Commerce  
Community Economic Development Offices  
Industry Groups, Associations, Unions, etc.  
Women's Entrepreneur Centers  
Aboriginal Business Development

Most of these organizations can be contacted by calling directory information and requesting the toll-free (no-charge) number for the federal and provincial inquiry centre. The "inquiry centers" are designed to help you find contacts for these organizations in your area.

### **Other Sources of Market Research Information:**

Local business people  
Potential customers  
Past financial statements from an existing business  
Other businesses like yours in different communities  
Telephone yellow pages - Excellent!!!  
Word of mouth  
Surveys, questionnaires  
Magazines, newsletters  
Testimonials about your product or service  
Letters of intent from future customers.

The next two pages include questions that you will need to ask yourself and others before you decide to proceed with your business. You may want to use some of these questions to design a survey about your business idea. Talk to people whose opinion you value and who will be honest and realistic with you.

Our example shows the number and type of responses that John received for each question as well as comments.

## 5-1 John's Business

	Advantage	Disadvantage	Comments
Is this business costly to operate?	No 11	Yes 4	- Avoid dead stock and accounts receivable.
Is this business dependant on one type of product or service?	No 11	Yes 4	- Look after local people. - Many different areas that you can repair (vehicle, farm equipment)
Is repeat business possible?	Yes 14	No 1	- Good service will bring your customers back.
Is there room for growth?	Yes 14	No 1	- There's a large area out there short on quality service.
Are you selling a here today, gone tomorrow type of product?	No 15	Yes 0	
Will you have immediate cash coming in?	Yes 12	No 3	- Quick turnover, don't carry too many accounts receivable.
Is your product or service affordable?	Yes 14	No 1	- Necessity for most people. - If you keep prices reasonable.
Is your community growing or shrinking?	Growing 8	Shrinking 7	- Remaining stable, but have lost two repair shops due to owner's retirement and environmental problems with buildings.
Are there similar businesses in other communities of same size doing well?	Yes 12	No 3	- Doing well if managed well.
Is it expensive or difficult to make your customers aware of your business?	No 13	Yes 2	- Word of mouth is a great help in a small town. - Local paper good and cost is reasonable.
Is it very expensive to contact and sell to customers (travel, telephone, etc)?	No 15	Yes 0	- Local media is quite reasonable. - Small amount of long distance telephone calls.

<b>5-1 Your Business</b>	Advantage	Disadvantage	Comments
Is this business costly to operate?	No	Yes	
Is this business dependant on one type of product or service?	No	Yes	
Is repeat business possible?	Yes	No	
Is there room for growth?	Yes	No	
Are you selling a here today, gone tomorrow type of product?	No	Yes	
Will you have immediate cash coming in?	Yes	No	
Is your product or service affordable?	Yes	No	
Is your community growing or shrinking?	Growing	Shrinking	
Are similar businesses in other communities of the same size doing well?	Yes	No	
Is it expensive or difficult to make your customers aware of your business?	No	Yes	
Is it very expensive to contact and sell to customers (travel, telephone, etc)?	No	Yes	

### 5-1 Your Business

	Advantage	Disadvantages	Comments
Is it time - consuming to contact and sell to customers?	No	No	
Is there enough profit to cover all customer relations, including those who don't buy?	Yes	No	
Can supplies can be bought at a low enough price to be competitive and still make a profit?	Yes	No	
Is it easy for new competitors to start this type of business?	No	Yes	
Are other businesses already providing this service?	No	Yes	
Are customers happy with service already provided?	No	Yes	
Total # of Good or Not-So-Good			



## 5-2 Market Analysis

**Who are your customers?**

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**What are they looking for?**

**Why will they buy from you?**

### 5-3 WHERE DO YOUR CUSTOMERS COME FROM?

Describe the primary area that your customers will come from as well as the fringe area. The “**primary area**” is the area where your business is located and where most of your customers live. You will also draw some customers from your “**fringe area**”, which is farther away but still within reasonable traveling distance.

To determine your “**Total Market,**” find the number of households (or farmers, or businesses) in each of these areas and multiply it by the average spent on your product or service per year. The most common place to find household spending is Statistics Canada. Many non-profit business assistance organizations have Stats Canada information. You can also contact Statistics Canada or the Business Service Center directly through the blue pages in your telephone book.

Next, estimate the percentage of business you expect to get and multiply this by your total market.

#### Where do John’s customers come from?

	Primary Area	Fringe Area
Size	<i>Timmins and surrounding 15 miles</i>	<i>Surrounding communities and farms 15-50 miles</i>
Total Number of Households	5,000	20,000
Average \$ per household spent on your Product /Service	X \$400	X \$400
<b>Total Market</b>	= \$2,000,00	= \$8,000,000
Number of Direct Competitors - Same product and area	3 In town	
Number of Indirect Competitors - Different product-same dollars	<i>People with new vehicles/few repairs. People who do their own repairs.</i>	
Number of Part-timers	Very Few	
Number of Out of Area Sales	<i>Lots due to shortage of repair shops close by</i>	
Considering the competition mentioned above, how much of the business do you expect to receive?	1/10 or 10%	1/400 or .25%
Multiply the “Total Market” by the amount of business you expect to receive.	\$200,000	+ \$20,000

**Add them together.**

#### John’s Expected Share of the Dollars Spent

= \$220,000

### 5-3 Where do your customers come from?

	Primary Area	Fringe Area
Size		
Total Number of Households		
Average \$ per household spent on your Product /Service	X	X
<b>Total Market</b>	=	=
Number of Direct Competitors - Same product and area		
Number of Indirect Competitors - Different product - same dollars		
Number of Part-timers		
Number of Out of Area Sales		
Considering the competition mentioned above, how much of the business do you expect to receive?		
Multiply the "Total Market" by the amount of business you expect to receive.		

**Add them together.**

**Your expected share of the Dollars Spent** =

## 5-4 HOW WILL YOU SELL TO YOUR CUSTOMERS?

Who will you sell to?

Are you selling directly to the final customer, as a wholesaler, on consignment or by some other method?

If you are selling to someone other than the final customer, how much mark-up are the agents selling your product receiving?

Is your product still a reasonable price by the time it reaches the final customer?

### How will John sell to his customers?

- Retailer or Service Provider - You sell to final customer
- Wholesaler - You sell to the retailer
- On Consignment - Someone sells for you
- Other -

### Selling Terms

Cash

Visa

Interac

Charge

If charge, under what conditions?

*Only larger commercial customers with approved credit*

Interest charged on overdue - 2 % per month

Discount for early payment - N/A

How do your selling terms compare to those of your competitors?

*Similar, except the larger dealerships have Visa and Interac but their market is for cars on warranty, and mine is not.*

If you are selling to someone other than the final customer what is the level of markup at each level?

*N/A*

### 5-4 How will you sell to your customers?

- Retailer or Service Provider - You sell to final customer.
- Wholesaler - You sell to the retailer.
- On Consignment - Someone sells for you.
- Other -

## Selling Terms

Cash

Visa

Interac

Charge

If charge, under what conditions?

Interest charged on overdue - \_\_\_\_\_ per  
Discount for early payment -

How do your selling terms compare to those of your competitors?

If you are selling to someone other than the final customer what is the level of markup at each level?

## 5-5 LETTERS OF SUPPORT or TESTIMONIALS

“**Letters of support or intent**” are written, signed statements from future customers stating that they intend to purchase products or services from your business.

One of the best ways to convince your banker or investors that you can reach your sales estimates is to obtain letters of support or intent. In some cases, where you may be dependent upon several large customers, letters of intent will be an absolute necessity. Your business proposal may not even be considered without some assurance of future sales. In any case, letters of support are always appreciated.

“**Testimonials**” are written, signed statements concerning the value of your product or service. Some areas discussed may include the following:

Skills of you or your staff

Benefits of your product or service to them

Statements concerning their need for your Product/Service.

## 5-5 Letters of Support or Testimonials - John's Auto Repair

Community Support Letters Attached

No  Yes  If yes, please list below.

*Timmins Economic Development Committee*

*Timmins G.M. Sales*

**Customers Letters of Support Attached**

**No  Yes  If yes, please list below.**

Amount of business they expect to purchase from you each year.

*Greenfields Alfalfa Dehydrators*

*Est. \$10,000*

*Mike's Trucking*

*Est. \$5,000*

*Schmanske Farms*

*Est. \$4,000*

*John Yakeninski - Royal Trucking*

*Timmins Rural Municipality*

*Pocolater Courier*

*General Homes Inc.*

*Lincoln's Funeral Homes*

*Jones Construction*

**Other prospective customers and/or their comments:**

*N/A*

**Testimonials**

**Please list Author and Subject**

*N/A*

## 5-5 Letters of Support or Testimonials

### Community Support Letters Attached

No  Yes  If yes, please list below.

### Customers Letters of Support Attached

No  Yes  If yes, please list below.

Amount of business they  
expect to purchase from  
you each year.

Other prospective customers and/or their comments:

Testimonials

Please list Author and Subject

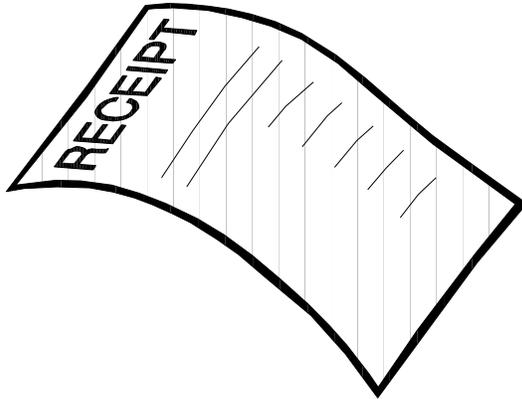
## **Product or Service**

Identify the major services or products that the business will offer, and break them into separate groups.

John's Auto Repair isn't very complicated, so he will only use four groups.

### **5-6 MAJOR SALES GROUPS OR CATEGORIES - John's Auto Repair**

- 1     *Labor*
- 2     *Parts*
- 3     *Towing*
- 4     *Other*



**5-6 MAJOR SALES GROUPS OR CATEGORIES**

1	
2	
3	
4	
5	
6	

## 5-7 Product or Service

The following worksheets should provide a complete analysis of each of the products or services that you will be offering. The back of each page will provide explanations or examples and the front will be your blank copies of the worksheet for each category. Look at all the examples before you start completing the worksheets.

### DESCRIPTION

Discuss the following factors that can be considered important to your customers:

convenience	price	performance
quality	color	timeliness
appearance	image	safety
durability	versatility	packaging
location	installation	accessories

### IS YOUR BUSINESS SPECIAL, DIFFERENT OR NEEDED?

- Do you have a new or better way of doing things?
- Why do you think your customers will like your product or service better than others?

### PRODUCT OR SERVICE GUARANTEE

- Will you offer any product or service guarantees/warranties? If so, what?
- What will this cost you?
- How does this compare to others in your business?

### SUPPLY, COST (NOT INCLUDING FREIGHT), AND SELLING PRICE

- Who will supply this product? What if this supplier does not work out?
- How often will you need to make orders? Using the sales you have projected, what size would your average order be?
- Supplier terms (credit, cash, COD, delivery time).
- How long do you have to wait before you receive your order? How does this compare to your competition?
- How much will you mark up your products or service? Is your "markup" high enough to pay freight and make a profit?
- Is your price still low enough to attract customers?
- A breakdown of the cost to produce/purchase each category.

### MAIN COMPETITION

- Discuss your main competitor or group of competitors and compare them to your business.

**5-7 PRODUCT / SERVICE CATEGORY # 1**

**Description:**

**How is it special or better than the competition? Why is your product /service needed?**

**Product or Service Guarantee**

**Supply, Cost, and Markup**

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You -</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>

**5-7 PRODUCT / SERVICE CATEGORY # 1** Labor

**Description:**

- Will provide quality auto repair at a competitive price.
- Trucks and machinery for farmers, Recreation vehicles (bikes, skidoos).
- Tire & Muffler Shop, General auto repair.

**How is it special or better than the competition? Why is your product /service needed?**

- Need has been proven through: my home-based auto repair in evenings  
my experience  
support from my competition.
- Convenient to customers. Quick service without going out of town.
- Competitive pricing due to my low costs to operate and very little hired labor.

**Product or Service Guarantee:**

- Full labor warranty on all work for 90 days. Will supply labor myself.

**Supply, Cost, and Markup**

- Labor is supplied by owner at no direct cost.
- If temporarily unable to work in business, I can hire a mechanic on piecework for \$17 per billable hour. I will not do as well as when I am working but all my business and personal loans are insured and payment will be temporarily stopped. Supply of mechanics in the cities is plentiful and my wife and I can supply a temporary employee with room and board.

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You - \$30/hr</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>
<i>Timmins G.M. Sales</i>	25%	\$35 per hour	- Small shop - No wish to expand. - Long waiting list.	Letter of Support - Attached B-9
<i>Joe's Repair Timmins</i>	10%	\$30 per hour	- Very, very slow - Poor quality - Customers will not take work there.	Concern but no competition.
<i>ADA Auto Timmins</i>	25%	\$35 per hour	- One bay shop. - Slow turnaround. - More work than they can handle.	Very little. Plenty of work and they have regular customers.
<i>Out of town Repair shops</i>	40%	\$30-\$40 per hour	Inconvenient but quicker because shops in Timmins are too busy and customers must wait too long.	Very little change to each small shop. Hope to keep 1/2 of this market in town.

**5-7 PRODUCT / SERVICE CATEGORY # 2**

**Description:**

**How is it special or better than the competition? Why is your product /service needed?**

**Product or Service Guarantee**

**Supply, Cost, and Markup**

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You -</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>

**5-7 PRODUCT / SERVICE**

**CATEGORY # 2** Parts

**Description:**

- *Quality ACME Parts from ACME Auto Supply - Saskatoon*
- *Various other alternative suppliers for tires and items not available through ACME.*

**How is it special or better than the competition? Why is your product / service needed?**

- *Acme parts are the same quality as name brand parts but are 1/2 - 3/4 the price.*
- *Other advantages, same as category 1.*

**Product or Service Guarantee:**

- *ACME warranty equal to original manufacturer.*
- *I will supply labor to fix guaranteed parts free of charge.*

**Supply, Cost, and Markup**

- *Suppliers have stated average markup is 45%.  
( Purchase \$100 Sell \$145 )*
- *Alternative suppliers have stated similar markup, but I prefer to deal with ACME. Because I previously dealt with them at other jobs, they have offered a 30 day charge account. This will be helpful for the cash flow.*
- *Have allowed for freight on one parts order per day. ACME pays freight on orders over \$250.*

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>
<i>Timmins G.M. Sales</i>	<i>25%</i>	<i>Higher, only original manufacturer.</i>	<i>Parts are equal quality. Name-brand.</i>	<i>Same as Category 1 - Labor</i>
<i>Joe's Repair Timmins</i>	<i>10%</i>	<i>Higher, must pay C.O.D on all orders.</i>	<i>Doesn't carry inventory.</i>	
<i>ADA Auto Timmins</i>	<i>25%</i>	<i>Similar</i>	<i>Established customer base.</i>	
<i>Out of town Repair shops</i>	<i>40%</i>	<i>Various pricing structures.</i>	<i>Various strengths. Weakness: - customers must travel out-of-town - inconvenient.</i>	

**5-7 PRODUCT / SERVICE      CATEGORY # 3**

**Description:**

**How is it special or better than the competition? Why is your product /service needed?**

**Product or Service Guarantee**

**Supply, Cost, and Markup**

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You -</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>

**5-7 PRODUCT / SERVICE**

**CATEGORY # 3** Towing

**Description:**

*24 - Hour Towing Service*

**How is it special or better than the competition? Why is your product/service needed?**

- *New service to the immediate area. Other shops all close at 6:00 and on weekends.*
- *Must call in tow truck from out of town (over 22 miles) after normal working hours and pay mileage both ways.*
- *Will need to be able to tow vehicles to my shop when required. Not practical to hire another auto shop to haul vehicles to their competition.*

**Product or Service Guarantee:**

- *Will be on call 24 hours.*
- *My wife will take messages for the shop while I am away.*

**Supply, Cost (including Freight), and Markup**

- *Will cost approximately 20% of fee for fuel for truck.*
- *May not make an enormous profit after fixed costs. However, it is a necessary customer service.*

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You - Service Call - \$25 Plus \$1/mile</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>
<i>Timmins G.M. Sales</i>	<i>25%</i>	<i>Service Call - \$30 Plus \$1/mile</i>	<i>- Only usually work for regular customers. - Customers not taking vehicle to them for repair call out of town. - Only available during regular working hours.</i>	<i>Same as  Category #1  Labor</i>
<i>ADA Auto Timmins</i>	<i>25%</i>	<i>Service Call - \$30 Plus \$1/mile</i>		
<i>Out of town Repair Shops</i>	<i>50%</i>	<i>Service Call - \$25 Plus 30 Round trip to Timmins Plus \$1/mile</i>	<i>- Available 24 hours. - Very costly due to mileage paid.</i>	

**5-7 PRODUCT / SERVICE      CATEGORY # 4**

**Description:**

**How is it special or better than the competition? Why is your product /service needed?**

**Product or Service Guarantee**

**Supply, Cost, and Markup**

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You -</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>

**5-7 PRODUCT / SERVICE**

**CATEGORY # 4** Other Income

**Description:**

- *This category includes any additional forms of income.*
- *Will meet the needs of the area as they arise and seem to be an opportunity.*
- *Presently includes overnight storage of semi-tractors in the winter.*

**How is it special or better than the competition? Why is your product/service needed?**

- *No other such service. Have made arrangements with Randy R. Weslaff, Trucking.*
- *Renting bay approximately 2-3 nights per week during winter months.*
- *Letter of intent attached*

**Product or Service Guarantee:**

- *N/A*

**Supply, Cost, and Markup**

- *Very little cost, just heating to open doors to let the semi in and out.*

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>
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*N/A*

**5-7 PRODUCT / SERVICE      CATEGORY # 5**

**Description:**

**How is it special or better than the competition? Why is your product /service needed?**

**Product or Service Guarantee**

**Supply, Cost, and Markup**

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You -</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>

**5-7 PRODUCT / SERVICE**

**CATEGORY # 5 & 6** \_\_\_\_\_ N/A

**Description:**

*N/A*

**How is it special or better than the competition? Why is your product/service needed?**

**Product or Service Guarantee:**

**Supply, Cost, and Markup**

**Main  
Competition**

**Present %  
of Customers**

**Price  
Compared  
To You**

**Other  
Strengths  
Or  
Weaknesses**

**Their Reaction  
To You**

Main Competition	Present % of Customers	Price Compared To You	Other Strengths Or Weaknesses	Their Reaction To You

**5-7 PRODUCT / SERVICE      CATEGORY # 6**

**Description:**

**How is it special or better than the competition? Why is your product /service needed?**

**Product or Service Guarantee**

**Supply, Cost, and Markup**

<b>Main Competition</b>	<b>Present % of Customers</b>	<b>Price Compared To You -</b>	<b>Other Strengths Or Weaknesses</b>	<b>Their Reaction To You</b>

## **Glossary**

**accessories** - extra parts

**analysis** - a study of all of the details

**assurance** - promise, certainty

**business consultants** - someone you can go to for business help or information

**dependant** - supported by

**existing marketplace** - at the present time, people who might become your customers

**guarantee** - a promise that your product or service will meet certain standards

**potential** - possible

**realistic** - stating things as they really are

**repeat business** - customers that you can sell to more than once

**stable** - steady, sure

**survey** - find out opinions of a group of people by asking a set of questions

**temporary** - lasting only for a short time

**versatility** - able to change or adapt, having many uses

**word-of-mouth** - people talking to one another