SIMPLE MARKET TESTING

A new airliner and all of its components are thoroughly tested before it is put into service. Many new business ideas go through little or testing before the doors open. That's one reason why most startup businesses crash and most new airliners stay aloft.

Since the impact of a business failure is not as severe as that of an airplane crash it's not necessary to analyze and test a new business idea as thoroughly. However, there is tremendous benefit and very little cost from doing a simple market test. The best practice I know is based on a technique I first saw at Hewlett Packard almost 20 years ago. Here I will describe a simple version. HP used a significantly more expense, elaborate and accurate version.

I believe that the scaled down market test described here provides useful results at an affordable price to a startup business. The rest of this paper describes this simple market test and some things you should try to do to make the results as accurate as possible.

Description of The Basic Simulation Test

On a daily basis, we make choices. We decide what to have for dinner. If we eat out, we need to decide on a restaurant. When we are in a retail store buying soap, we have a choice of many brands. We have choices of what stores to frequent. In all these cases, we are presented with choices of how to part with our money based on information presented to us. We can use the same method to evaluate how a new idea will compete by making a simulation of the choices available with the new idea (widget or service) included. This simulation is then presented to potential customers and their reactions are recorded. Although this concept may seem obvious, I find that it is rarely used and even more rarely done well. Below is an example of how this type of test might be structured for a new restaurant idea. A sheet with these three alternatives might be given to a set of 50 people in town and each of them asked to put a check mark in the restaurant they would most likely visit. If all three restaurants are situated close enough together that location is not a differentiator and if we know that the Burrito Doodle is always full and Jose Bustamante's has only 25% as many customers as the Burrito Doodle, we can use this market research tool to get an indicator of the popularity of our new business idea (Casa Burrito).

Basic Guidelines:

The following are some preparation guidelines for this simulation:

1. Disguise the names of all establishments to minimize any pre-existing biases or reputation effects (more about this later).

2. Try to include all of factors that you think will be important to customers making this choice. For example, if you believe that the appearance of the restaurant is important, include a photo of each

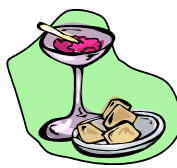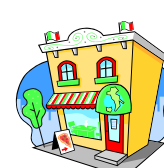| Burrito-Doodle	Casa Burrito	Jose Bustamante's
We specialize in making the best-value burritos in town, with the best ingredients. Your custom-made burrito is brought to your table within 10 minutes of ordering or it's free. Come today and get $2 off.	$1.00 margaritas every night from 5:00 to 7:00. Great Mexican food including traditional burritos and our new buritettes that have all the flavor and less rice and beans. Come check us out.	Jose Bustamante has been making burritos in town for the last 20 years. We take pride in our family home atmosphere and authentic rancho taste. All of our sauces are made by the Bustamante family in our own kitchens.

establishment.

3. In addition to getting a decision from each person regarding their choice, ask other questions to gather demographics (age, income level, or whatever might be important). This will help determine how representative your sample was to the actual market you are planning to sell into.

4. If the survey is being conducted as a personal interview, make sure that the interviewer doesn't say or do anything that might bias the decision.

Pitfalls

Although I am a strong advocate for doing this simulation, I must warn you to be careful in how you conduct the survey and interpret the results. The following are pitfalls to try to avoidr:

a. **Leaving out a key decision factor**. Let's say that these restaurants are not all in the same location and you don't test for this difference. Perhaps the Burrito Doodle is next to a busy intersection and your new restaurant is hidden in a side street with no parking. This needs to be part of the description in order to get a more accurate result.

b. **Reputation effects**. If people can guess what the products or services are, they may already have a bias to one or the other. This is why it is important to not use real names when testing. Yet it is important to understand that these reputation effects may skew the result. Imagine if you built a car that is technically identical to a Mercedes, but you sold it under the Hyundai name, it clearly wouldn't sell as well due to reputation effects.

c. Not having the same **demographic mix** as the target market. In our restaurant example, lets say that the survey was conducted at mid-afternoon in front of a grocery store. Stay-at-home moms would be over-represented and yuppies with little time (who probably eat out more often) would be under-represented.

d. **Survey bias**. If there is anything in the survey or the way in which the surveyor conducts it that causes people to favor one over the other, this will show up and make your results less accurate and useful.

Conclusion

Despite these pitfalls, I believe conducting a simple market survey is better than blindly going to market. Ideally, one would conduct two or three different surveys that should give the same results. By comparing the results you actually obtain, you can get an idea of how much trust you can place in the results.

The simple market test described here is most useful when you want to get a rough idea and confirm that there is a market for your product. If you have a lot riding on this result, I recommend that you involve a market research professional to help.

I hope that you have found this brief helpful. Please let me know if you have any comments, corrections, questions or suggestions for areas that should be covered in more depth. The following are two references if you'd like to explore this topic in greater depth:

- Abrams, Rhonda. *The Successful Business Plan: Secrets and Strategies.* (c) 1991-2003 Rhonda Abrams. Pages 14-34.

- Lesonski, Rivea. *Start Your Own Business: The Only Start-up Book You'll Ever Need.* (c) 2001 Entrepreneur Media. Pages 88-109.