

THE RIGHT USE OF MARKET RESEARCH

BY JOHN D. GEDDIE

The right use of Market Research is to validate or invalidate the critical assumptions of fallible executives faced with an important decision. As experience has taught us, the failure to make a small investment in Market Research can have a large impact on a firm's success or failure to meet its goals.

When arrogance trumps humility, market research is relegated to the junk heap in favor of bolstering the egos of executives wanting to prove their prowess in the marketplace.

Like the fallen cadre of heady dot-com executives, marketing staffs were left to lament, "If they had only listened to the market."

The consequences of making decisions on inadequate, incomplete or incorrect information is to give top management an Excedrin headache, a mediocre profit performance or enormous psychic pain for having to face the reality of failure, assuming they are willing to own up to their mistakes. Now we are back to human frailty again and our capacity to rationalize our mistakes away.

In the popular book, Good To Great, the author Jim Collins claims that really successful organizations encourage and reward the discovery and disclosure of "the brutal facts"

as a key to sound management practices. Here are a few of those brutal facts about the A/E/C industry:

- A high percentage of new offices fail to meet even minimum expectations for profit performance.
- A high percentage of "technical stars" hired to open new markets fail.
- A high percentage of public sector firms that try to enter the private sector markets fail.
- On average, firms waste over thirty-percent of their marketing budgets chasing jobs for which there is little or no justification.

Our work in this industry convinces us that the majority of these mistakes could have been prevented or mitigated by a small investment in the right kind of market research.

- If we examine the challenge of opening a new office, experience teaches us that not all markets are receptive to new players, regardless of how good you are. Until you know the level to which the potential buyers of your services feel there is room for a new player, you are playing a gambler's game against the odds. Until you can gauge the extent to which the competition is

well entrenched you will find any forecasts for growth are the mere fantasy of those trying to justify the new office.

- Unless you carefully examine and verify the past behavior of "technical stars" in generating new work, hiring one based on a convincing story is highly likely to lead to serious disappointment and disillusionment on both sides of the equation. And the cost to learn this lesson is often well into six figures.
- When considering entering new markets, a failure to conduct face to face exploratory meetings with potential buyers to accurately gauge their true interest is an invitation to failure and disappointment.
- The problem of chasing straws in the wind is endemic to the industry. As fear of having to lay people off for a lack of work goes up, objectivity and judgment on what to chase goes down. It's the old problem of being overly optimistic in absence of facts. We have proven how easy it is to get the most relevant information needed to make a prudent decision, but first the will has to be there.

Exercising Common Sense

I have a friend whose boss is always asking, "Excuse me, is

there any room for common sense here?" Gathering factual information before making important decisions is only common sense, but only if you have an understanding of what information you need and how to gather it. I would add to this, the humility to admit that others may have better research skills than you do and a little appreciation of the psychology of buyers thrown in for good measure.

Let's face it, none of us wants to make a bad business decision. But the truth is bad decisions are made every day.

Base a decision on lack of information, inadequate information, or the over-inflated optimism of a technical star, and you've got a good formula for failure.

That's exactly what happened when a large A&E firm, based in the West, forged ahead with plans to expand into the Pacific Northwest without researching the market. They believed the new market, geographically close to their home office, had a similar culture and demographics. They believed they were moving into a growing area. The manager they hired to open the office said he could bring past business relationships with him. He made big promises and the company had high expectations. But they failed to do any market research. One year later, after making a huge investment in the venture and generating no revenue out of the new office, Martin-Simonds Associates was brought in to assess the situation. This is what we determined through market research:

- The company was unknown in the new market; it had little to no name recognition among its potential clients.
- The loyalty of the new manager's past clients was not to him, but to his old firm.
- Of the few who had heard of the company, at least two potential clients had had a negative experience with the company on an institutional level.
- Contrary to what they believed, the economy in the new market had been in a big downturn for at least a year, and none of the projections forecasted growth in the near future.

In this case, a small investment in market research could have saved half a million dollars as well as time, corporate energy, and headaches.

In another case, a top, full-service A&E firm considered going after the biotech market after successfully completing research lab projects in the pharmaceutical industry. They believed the two markets were closely related enough that it would be an easy transition. They even hired someone out of the biotech industry to spearhead the effort. But before forging ahead on a hunch, they consulted with Martin-Simonds Associates to research the market. Our research of the biotech industry determined:

- Potential clients in this industry were not likely to take a chance with an A&E firm with no biotech experience.
- They believed a firm had to have a critical mass of process engineers and

scientists before they could compete.

- Their industry "star" lacked respect in the industry and was not considered a player.

Based on our findings, we advised the client to acquire a firm already working in the biotech industry, or to stick to their core competency. In this case, the firm saved a lot of money it would have spent to go after an unwelcoming industry.

Strategic decisions should only be made when you can reach a 75 percent probability that your move will be successful.

Invest in Market Research

A small investment in market research can materially boost your firm's chances of winning in the competitive market place; it can unlock information that has the power to take your firm to new levels or prevent executives from repeating the mistakes common to the A/E/C industry. "Fools rush in where angels fear to tread," a refrain from a famous musical, should be a reminder that big decisions should receive careful, thoughtful and thorough investigation, commensurate with the inherent risk.

Market research has the power to unlock new avenues not yet identified and it has the power to provide the information you need to develop strategies to differentiate yourself from becoming a commodity in the eyes of your clients.

If the ideas and concepts that we have shared have a ring of truth, carry these ideas to your executives and engage them in a dialogue. Or consider a demonstration project to validate or invalidate our claim of how accessible information is when you use the modern tools of market research.

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