

Rapid Market Appraisal: A manual for Entrepreneurs

Revised Version for Indonesia

Revised by: Ira Febriana

Banda Aceh, December 2006

International Labour Office

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Foreword

The main contribution of the International Labour Office in the tsunami response programme has been to assist men and women to achieve gainful employment, protect the vulnerable, and recover the economies in Aceh and Nias. One of the programme's main strategies is to strengthen local business development service providers (BDSPs) with quality tools and better capacity to response to the needs of women and men who operate micro and small enterprises.

In Aceh, much has been done to support business start up but very little in marketing support. Micro and small entrepreneurs (MSEs) and the local BDSPs are often unaware of the marketing challenges and the way to respond to such challenges. Market opportunities are not sought. New products tailored to market trends and customers' tastes are not developed. Such is a situation faced by MSEs in Aceh and world-wide. Building the skills of MSEs to assess and interact with the market is an effective way to foster business growth.

Recognizing that market knowledge is an important factor for business development, the ILO decided to produce this Rapid Market Appraisal (RMA) manual for entrepreneurs. It is based on similar tools the ILO has developed worldwide and adapted to the Acehnese context.

Ira Febriana, National Project Officer for the ILO took the lead in the adaptation and validation process. ILO would like to acknowledge the contribution of trainers of Aceh based BDSPs namely Aceh ka Bangkit, Beujroh, CCDE, HMI, and IWAPI, who provided valuable feedback.

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Jakarta, December 2006

Alan Boulton
Director
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1. About this manual

Who is this manual for?

This manual is for people who own and operate micro and small businesses. The business probably has no more than ten employees and may have no employees. Large companies spend considerable time conducting market research. Often they employ firms to conduct market appraisals to develop and market new products. Micro and small businesses may not even consider conducting market research, and their businesses suffer as a result. This manual will help you, the small business owner, conduct market research on your own. Ideally, you will use this manual while you undergo three days of training in Rapid Market Appraisal (RMA) with about 10 to 15 other entrepreneurs. But the manual is designed so that you can follow the course without the class if you have no opportunity to join an RMA course.

This manual expects you to do some writing. If you cannot write, try to find someone who can help you to write down your answers. It is useful to have a record of your responses, and when it is time to interview people in the marketplace a written record is important.

What is Rapid Market Appraisal?

Rapid Market Appraisal is a way for micro and small-scale entrepreneurs (MSEs) to collect market information to identify and develop new products or market products to new customers. Customers are the main source of information; they help you determine the market demand for products. The market demand is how many people are willing to buy your product and at what price.

Many MSEs do not try to study their market at all. They continue making the same products as their neighbours, and everyone is competing for a smaller and smaller portion of the market. Some MSEs do not even talk to their customers, but only sell their products through middlemen. Customers can give you valuable ideas to make better products or develop new products. The happier your customers are with your products, the more they will buy from you.

Rapid Market Appraisal helps you realize just how valuable market information is. You will learn to develop new ideas, and then you will test their marketability by going out and asking customers what they think of these new products. In the end, you will have a new product to sell that has a good chance of making profits for you. You will begin to see why it is important to listen to customers and to carefully research your market.

2. The Benefits of Rapid Market Appraisal

FIT and its associates have been delivering RMA training to MSEs like yourself for the last five years, especially in Kenya, Uganda, and Tanzania. In some cases, after the training the trainers returned to the trainees to find out whether the RMA training was helpful. Below are some of the findings.

All those who received RMA training improved their skills. After the training they were able to carry out their own market research and develop new products. They learned how valuable it is to talk to customers - to learn what products to make, to know how to improve their products, and in general to value the customers and consider their needs. Valued customers lead to more customers, and the entrepreneurs who received RMA training realized how important the customer is. They began to seek out new customers, instead of just waiting for the customers to come to them.

After the RMA training, I visited Neusu and Keutapang, where I was able to find new customers. I am also on lookout for customers in Lhokseumawe, especially during social function and activities.
(Cut Nurlaila, Association of Business Women Aceh)

All those trained said their relationships with customers improved, leading to new customers and greater sales and profits. This meant that their businesses grew. In one survey, the trainees reported that they hired two to five new employees as a result of the increase in profits and sales that came from learning to use RMA.

Another benefit of RMA is finding new business contacts, including suppliers and NGOs, and information on new markets. In addition to talking to customers, RMA takes you to people who are especially knowledgeable about your product and its market. Everyone who was surveyed after the RMA training reported gaining new business contacts. All of the MSEs surveyed also reported improvements in self-confidence and 'expanded horizons'. A few found solutions to specific business problems.

***Some examples of why
Rapid Market Appraisal is
important***

The following case studies from Mr. Fajri Sulaiman and Mrs. Nursyamsiah are examples of RMA in their businesses.

Mr. Fajri Sulaiman works in Lhokseumawe, where he makes piggybanks from clay. There is a good demand for his piggybanks, as they are cheap to make and easy to sell. Mr. Fajri is involved with BPR to socialize their savings programme. However, some customers complain that the design of the piggybank are too simple.



***Case 1: Mr. Fajri
Sulaiman and his
piggybanks***

Mr. Fajri's daughter has a piggybank, which Mr. Fajri bought in a shop in Bireuen for his daughter. Although it was much more expensive, his daughter prefers to use this one because the design is interesting and funny. His daughter likes to save her money inside this piggybank.

***Case 2 : Mrs.
Nursyamsiah and
her wooden home
decoration***

Mrs. Nursyamsiah makes wooden home decoration in the shape of animals and sells it through her friend Cut Sofia, who runs a souvenir stall at the market. She has a selection of T-shirts with traditional Acehnese design, which sell well, but customers often ask, if she has anything a little different. She also sells the animal shaped wooden home decoration, but there are many salespeople in the Lhokseumawe market, who sell the same, and therefore competition is strong. She tells Mrs. Nursyamsiah that her costumers want something new.



Think about the following questions, and visualize the story with your own business:

In case study 1 (Mr. Fajri Sulaiman, clay piggybank maker)

1. Why are some customers complaining about Mr. Sulaiman's piggybanks?

.....
.....

In case study 2 (Mrs. Nursyamsiah, wooden home decoration maker)

2. What is Mrs. Cut Sofia trying to tell Mrs. Nursyamsiah?

.....
.....

3. What role can retailers play in your business?

.....
.....

4. What should Mr. Fajri Sulaiman and Mrs. Nursyamsiah do in order to meet their customer's needs and demands?

.....
.....

As a business person, ask yourself every day:

- Why do some customers buy from my business?
- Why do some customers not buy from my business but from my competitor?

A good business idea is one that meets the needs of the customers. It gives people what they want. It offers a *product* or a *service* that people are willing to pay for. There must be enough people who are able to pay sufficient money for the business to survive and make a *profit*. Once you have found a product or a service that people want, you still need to know if you have the skills, equipment and ability to provide it. If you do not, you will need to find out how much money you require and how to obtain it.

3. Rapid Market Appraisal: Step by Step

Step 1: Finding ideas for new and improved products

What is a *product*? A product is something which you make and sell, for example:

- a brush
- a plough
- a window frame, etc.

A business can also provide a service. A service is something you do for people for money, for example:

- a tailor
- a mechanic
- a delivery service

You will need to know that you can make a profit from your new product or service idea. You need to know that people are willing to pay you enough to cover your costs, with money left over. You need to make enough profit to help your business grow.

How do you know that your idea is something you can do in your area?

You check out your idea by talking to the people you need to make the idea work: customers, suppliers, or people with a good knowledge of how such a business operates.



Why bother looking for new ideas? Why not simply copy what others are already making?

The problem of producing similar products for the same market environment is that you face stiff competition, leading to low income for your business. To overcome this problem, market research (survey) is necessary to find out the reasons and identification of new products that will increase your profits and income.

Rapid Market Appraisal helps you take a negative situation and make it positive, as outlined below.

The reason for you to make new products is to meet the needs of your target market at all times. New products can help you:

- increase the amount of money you expect to earn;
- improve the reputation of your business;
- be competitive;



- have products which are not available elsewhere;
- attract new customers;
- respond to customer needs;
- take advantage of new techniques and technologies.

But first you need good ideas. Where do they come from?

What is a 'good product idea'?

Ideas are everywhere, but it is up to you to look for them. You can look for new ideas yourself or you can ask your friends, neighbours and customers. Maybe you have heard your neighbours complain that they cannot find a certain item anywhere - there is an idea! Maybe you yourself have had a bad experience getting someone to repair your roof - reliable roofers might be a business you can start. Most likely you already sell some products or offer a service, so you already have an area to explore for ideas.

Undesirable situation

Massive production of similar products. It leads to stiff competition, hence low income for your business.

Desirable situation

Market research (survey) to identify new products to increase your profits and income.

How can you improve on what you offer? What else do your customers want?

It is useful to start with what you already produce or to think about what you already know how to do. It is no good coming up with a great business idea when you do not have the skills or equipment to make that product. And coming up with an idea for something you would not enjoy doing is not a good idea either. Perhaps everyone is complaining that there is no place to put garbage and the city never collects it. A garbage collecting business might be a good idea, but not if you would not be willing to do the work required. You might end up being late or forgetting to go to every house, and eventually your customers would be complaining about you and would take away their business.

Finding ideas for new and improved products

A good idea also needs to be something that people in your area want enough to pay for it. Perhaps you see many people buying pasmina (scarves) in your area, so you think you will also make pasmina. You set up a shop selling pasmina, but almost no one buys from you. Why? Perhaps the market was already full - there were already enough people selling pasmina to everyone, who wanted them in your area, so the demand for pasmina was satisfied. Perhaps in a newly developing town there is no one selling pasmina. In that case, you might do very well selling your product. A good product idea needs to match what you can do and want to do with what people in your area want to buy.

Where can you find a 'good product idea?'

How do you find business ideas? Ideas are everywhere, but they need to match what customers want and can pay for. They also need to match what you can do. You can search for ideas in your area, or you can take a trip to another place. You can look through magazines and books, and you can talk to experts. You can also start by using your own knowledge and experience of the market and your creativity. Below are some of the many ways you can look for business ideas. A good business person never stops looking for ideas.

Brainstorming

One of the ways of thinking of ideas is called 'brainstorming'. It is a method that helps you use your creativity. You try to let your mind become very open. Start with a word or a sentence, and just write down everything that comes into your head, no matter what it is, no matter how little sense it makes. You can begin with any word at all, or it can be a word that already matches your products or the material you would like to use. Brainstorming works best when you do it with a group or another person, but you can also try it on your own.



A few rules for brainstorming are:

- Anything goes — no matter how crazy something sounds, write it down. The goal is quantity (as many ideas as possible), not quality. You will decide later whether it is a good idea. First you must try to get as much down as possible.
- If you are in a group, do not criticize anyone's idea, including your own.
- Amusing and original ideas are welcome. Laughing is a must.

Looking at new ways of doing old things

Maybe there is something people in your area do that takes a lot of time, like fetching water. Perhaps you could make something that will save them time (like building a water cart) or save them money (like designing a stove that uses less charcoal). Finding new ways to do old things is one source of product ideas. Another source is simply thinking of ways to improve existing products. In our first case study, for example, Mr. Omondi could simply modify the design of his lamps and make a better product.

Meeting unmet needs

Maybe your town has a shortage of accommodation. You hear visitors complain that there is no place clean and safe to stay. Maybe people have to travel all the way to the capital city to buy fertilizer. Maybe there are many tailors, but no one selling cloth. If you can find something that people want enough to pay for but they cannot get it in their area, you probably have found a business idea. Think of what is readily available in your town or neighborhood, and think of what is missing.

Publications

Printed material such as catalogues, trade journals and magazines may help you to find ideas. There may be products pictured that are not available in your area. They can give you ideas. Newspapers are full of ideas. They tell about businesses or development products that are starting in your area. The classified ads and articles about current trends may give you ideas.

Skills and hobbies

Maybe you love to cook. Perhaps you could make a new kind of jam from nutmeg for your local market, or you could open a restaurant. Maybe you are very good at drawing. You might think of adding signs to your block making business. Maybe the women in your area are very good at embroidery. Perhaps you could organize them to start a business making special Acehnese bags or traditional Kasab with a more modern design. Using the skills and interests you have available is another way to find good business ideas.

Natural Resources

Mother nature might provide good ideas. Consider what natural materials are available in your area in abundance: the soil, the sea, the plants, the river. What products could you make from these without harming the environment. For example, maybe there is good soil for bricks available. Perhaps there could be a way to make tiles from that soil. Maybe there is a kind of plant that makes a useful medicine. See what is available.

Waste Products

Usually there is something left from the things we make or do that we throw away. These may come from agriculture and animal products, from household waste, from cars and other machines, and from industries. Households throw out food that could be used to make compost or animal feeds. They throw away paper, glass and aluminum that can be recycled. Plastics can even be recycled. Take a walk through the poorest part of town. You might find interesting things being made from what others thought was garbage.

Industries sometimes produce very useful waste. A clothing company might throw out small pieces of cloth that could be used to make something else. Plastics factories usually have materials left over that might be used, for example, for insulation, stuffing for pillows, or a new kind of fuel.

Are there possibilities of recycling something that is in abundance? Is there a way of using resources more efficiently? Maybe you could offer a service to help individuals or institutions dispose of their waste or make something new from it.

Trade fairs and exhibitions

Trade fairs and exhibitions are specifically designed to provide business ideas to people like yourselves. Find out about the fairs and exhibitions taking place in your area and visit them.

Take a field trip

Go to a distant town or even another country if you can. What are your competitors offering their customers? What products are most popular? New ideas are often waiting for you in new places. You can also look around your own town for fresh ideas. Why are people buying from your competitors? What is missing in your town?

Research institutes

Research institutes spend a lot of time and money coming up with business ideas for other people to use. If there is one in your area, you should pay it a visit. Often these institutes have new ideas they would like to test.

Now it's your turn: Find three new ideas

Using any of the methods and tips outlined above, come up with at least three NEW product ideas. These should be products that you are not presently making and that are not being made by others in your neighborhood or town. Write them down and draw a picture of each one. What need will it answer or what problem will it solve for your customers?

Step2: Analysing your product ideas

You have now made illustrations of your three new product ideas. Go back to each one and see if it is really a new idea. Is it a product that is not widely available in your area?

Consider the positives and negatives

Now go through each of the ideas and check that you could actually make it. If you had some extra money for equipment and materials, would you have the ability to make these products? Are they practical?

If all three of the ideas are practical, go through them again and write down why you like them and what problems may arise. Write down the positive points of each idea. For example, if the product can be made with inexpensive materials, that is a positive point. If it helps customers save time or money, that is also positive.

When you have listed the positives, consider the negatives. Maybe you do not have the equipment to make this product. Perhaps it is going to be difficult to produce it inexpensively. Maybe no one in your area has ever heard of it so will not want to buy it until they try it. As you write down the negative points, think about how you might overcome them. Perhaps you can borrow the equipment from your neighbour. Maybe you can get the supplies to make your product from a supplier, if you order in large enough quantity. Perhaps you could offer a few free samples of your product until people are familiar with it. Every negative point is a challenge to you. How would you overcome it?

When you are through analysing the positive and negative points of your product ideas, decide which one would be best to try. Which has the most positives and fewest (or easiest to overcome) negatives? Which is the most practical and the most likely to make a profit?



Step 3: Preparing for market appraisal

During your market appraisal you will ask potential customers and experts about your product. They will help you determine exactly how to make, sell, and market your product, and at what price. But first you should analyse your product yourself. Consider the following questions for your first screening of your product:

Initial screening

- Does your product exist in the market?
- Is your product readily available in the market?
- Is your product out of date or in style?
- Is your product easy to use?
- Is your product of better quality than the existing ones?

If you are able to answer these questions, go on to think about the product in a little more depth. If you find that there are too many potential problems with your product, go back to another one of your three ideas and see if a different idea gives you a better result.

Deeper analysis

- Is there a market for your idea?
- Can you provide what your customer wants?
- Can you get the idea across to the customer?
- Do you have the materials and equipment to make this product (or offer this service)?

The importance of customers

When you conduct your market appraisal, you will talk to people who might be potential customers of your product. Who exactly is a customer?

Customers are the reason for your business. Without them, you cannot make money. Remember:

- A customer is the most important person in your enterprise.
- A customer is not dependent on you; you are dependent on him.
- A customer is not an interruption to your work; he is the purpose for it.
- You are not doing the customer a favour by serving him; he is doing you a favour by giving you the opportunity to do so.
- Without the customer, there is no business!

What does your product offer your customers? There may be more than one.

Step 4: Conducting the Rapid Market Appraisal

You will need to keep a good record of the information you get from customers and experts. You will want to write down what they tell you. If you do not know how to write, find someone who can help you, such as a student or a friend. If necessary, you can hire someone to write down what people say. Do not try to remember everything. It is more reliable to write things down.

Getting Information from customers

Who are the customers for your product? Are they likely to be young or old, male or female? Are you catering to a specific group, such as farmers or housewives? Think about who your potential customers will be. If there are many different types of people who might buy the product, or if it is not clear who will buy the product, it is important to seek out a cross section of potential customers. Interview someone old, someone young, someone male and someone female. Vary the group of potential customers interviewed. If the customers are likely to all be from one group, such as middle-aged women, then it would be important to try to find some differences, such as different neighborhoods, ethnic groups, or income brackets. Ideally it would be good to interview at least ten customers and certainly no fewer than six.



What questions will you want to ask your customers? There are three main areas for which you need to get information. They include:

Need

Potential customers will mainly buy products that fulfil their needs or desires or that can solve a certain problem. You want to know why your customers would or would not buy your product. Perhaps the need the product meets is already being solved by another product. You will want to find out what else the potential customer buys and why.

Quality

Your customers can tell you how to improve your product and what aspects of quality and packaging they are looking for. It is better if you have a sample of your product. If not, try showing them a drawing. Ask them how it could be improved or what they would look for before buying it.

Example

A restaurant offers food, but that is not the only thing it offers. There may be friendly service, an attractive decor and high quality meals. By only mentioning food as a product and hunger as a need, much is left out. Certain restaurants try to please specific customers, who have different needs and desires. Not everyone likes the same things. One group of people may want quick cheap food located close to their work. Another may want a quiet place with music. Rich people may have different needs and desires than poor people, the young different than the elderly.

Price

You will need to know how much your customers are willing to pay for a product. Only then will you be able to see if you can make the product at a profit. It is best to offer a range of prices and have them tell you whether they would pay a given price.

**Some rules
for interviewing**

When you talk to your customers, you are selling both yourself and your product to them. It is important to make a good impression. Be polite. Describe the product to them by telling them how it will be useful to them and what benefits it offers. Ask questions that will give adequate information, using words like 'Who? What? Why? Where? When? How?' For example, 'How satisfied are you with this product?', NOT 'Are you satisfied with this product?' **Do not** ask questions that can be answered with **yes** or **no**. Do not be afraid to follow a question with a question. Only ask one question at a time. For example, 'Where do you buy this product?', NOT 'Where do you buy this product, how often do you buy it and how much do you pay for it?' People will answer best if they are answering only one question at a time. Repeat back what people tell you to make sure you understand what they have said. Be sure to thank people for their time when you are finished. Explain how you will use this information to make a product that better suits their needs.

Some of the questions you might like to ask your customers include:

- Where do you buy this product or service?
- Where else could you get this product or service?
- Why do you buy from 'x'?
- How often do you buy?
- What price do you pay?



- What do you think of the quality of your purchase/service?
- What do you like about it?
- What do you think of the price?
- Is there any way you think it could be improved (style, packaging, service)?
- Do you know of anyone else planning to offer this product or service?
- Are there any other products you would like to see on the market?

You can use a checklist (a list of the sort of questions you want to ask) as you ask the questions. But do not be afraid to follow up with other questions that are not on your list. Each customer might have specific information that you were not expecting. You want to be open to whatever your customers can teach you.

***Key Informants:
Expert Information***

In addition to your customers, you will want to get information from key informants. Key informants are people who have special knowledge of your product or the market. They could include suppliers, retailers, people who work for the government, research institutes or NGOs. Who could be a key informant for your product? Who knows about making it - the technology or materials that will be necessary? Who knows about selling it? Who supplies it? Who retails it? Is there anyone who knows about the market in general - what kind of people buy it, and for what price?

Once you have thought of at least two to three key informants, you will want to make a list of questions for them. The same rules for interviewing customers also apply to key informants. But what questions you ask them will depend on what kind of expert knowledge they have. Maybe your informant knows all about making the product you want to sell. You will want to ask in great detail the best way to produce it, using what equipment and materials, in what quantity, and how much it all costs. Below are some of the other types of questions you might ask your key informants:

- This idea will help people by ----. How much do you think people need such a product or service?
- What do you think would be most important to encourage people to buy (e.g. quality, style, price, reliability, etc.)?
- Do you think it is a business that could grow over time?
- What are the trends?
- Do people need this product all the time or does the demand change throughout the year ?
- Are there aspects of the product that people want but cannot get or can get only with difficulty?
- What else do you think people would like to have?

***Step 5: Analysing
The results***

Hopefully, when you were asking questions you were also writing down the information. Now read through all the information you have gathered. There are probably certain responses that repeat themselves. You should make a note of these. There are a number of areas you hope to have covered. They include the following:

- Is there a market for your product?
- Who will buy it?
- What are the needs of each customer group?
- What are they looking for in your product?
- What do you know about the model (design) of the product?
- How will you go about producing it?
- How will you go about packaging and marketing it?
- At what price will you market it?

After reading through the information you have gathered, see if you can answer the following questions. If you are taking the RMA course, you will make a presentation to your class which outlines this information to them.

- Who was surveyed? Explain the size and type of customer sample used and any key informants.
- Is there a market for the product?
- Who will be the customers?
- What need does the product fill for the customers?
- What do the customers want in this product (quality, price, packaging, how and where it would be sold)?
- Does anyone else sell this product?
- How will your product be better?
- What do you know about the design for the product?
- What do you know about how to make the product?
- Where will you find equipment and materials?
- Who was the most important key informant?
- What information did he or she provide?
- What else did you find out?

***Step 6: Planning
for the future***

Your market survey probably brought certain issues to light. Maybe there is not much of a market for your product. In that case, take one of your other ideas for a new product and go through the appraisal process again, asking questions of customers and key informants about this product instead.

Maybe there are certain problems you will need to overcome before you can begin producing your new product. Perhaps you will need some equipment that you do not have or you need to raise the money to buy the materials. Now is the time to figure out how you will solve any problems that your product presents.

In order to make a work plan, see if you can answer the following questions:

- Exactly what product will you make (the design of the product)?
- Do you have the skills to make this product? If not, how will you get them?
- What materials will be required?
- What tools or equipment will you need?
- What will you need to do to get the materials, tools or equipment?
- Where will you sell the product?
- How will you package and advertise the product?
- How long will it take to cover each of the above steps? Make a timeframe.

One of the areas you will need to cover is how much it costs to make your product and how much you should charge for the final product. Your customer survey should have given you some idea of how much people are willing to pay; now you need to estimate how much it will cost you to make it. To do this, you will need to know the answers to the following questions:

- How much would my materials cost for a given quantity?
- How reliable is the supply?
- Who else supplies these materials?
- Are there any special issues concerning storage, transportation, or use of the material?

You might want to go back to a key informant to get these details.

Now that you know how much your product will cost you to make and how to make it, as well as who will buy your product and why, you will need to find the money to start up the product. Maybe you will be able to save enough money to invest in the product yourself. If you have done your calculations carefully, and if the results of your survey are positive, you have a good idea of how soon you can recover your investment. If you do not have a way of saving for the initial investment costs, carefully write out your workplan along with the figures that show the costs and potential profit of your product and try to find financing. NGOs, banks, money lenders and relatives are all possible sources of financing. With your workplan you can make a strong argument and show how soon you will be able to repay a loan.

It is important to write how many sales you make from your new product and also how many new customers you attract. This way you can know exactly how much you gained from your investment. The information will be useful when you plan future investments.

Even after you are making and selling your new product or service, do not forget the importance of talking to your customers. Your customers can continue to give you ideas on how to improve your business and win more customers and more profits.

Now that you know how to do a *Rapid Market Appraisal*, do not forget. Try one at least once every year or two, so that you can continue to improve and expand your business.