



PROFIT

promoting regional opportunities
for investment and trade

Test marketing

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1. Introduction

Test marketing is a widely-used technique typically used by businesses to assess whether they can introduce a new product to an existing market. Used that way, it can be quite expensive and so it tends to be used as the last link in a chain to demonstrate that a market exists for a product, usually by trialling it in one or two cities or in a small region, before it is rolled out nationally in your target country. However, test marketing can also be used to assess whether an existing product can be sold in a new market – which is exactly what a business considering internationalisation wants to do – and can be a much more cost-effective way of undertaking market research than any amount of surveys or secondary research.

Test marketing can be used for both consumer audiences and business audiences. It is unlikely that it will tell you how much of a product might sell; it should, however, give you an indication of whether it will at all sell. It may also give valuable feedback in terms of likely customer segments and ways in which you may need to communicate your marketing message. You can then decide whether you want to risk more capital setting up supply chains or arranging local production. Even at a small scale, and testing out new markets, there is a cost involved in test marketing, so you will want to be clear about the questions that you are trying to answer and you will need to have gathered some preliminary information for example about customer needs, standards and technical measures, etc and be sure that your product meets the need.

Test marketing is well suited for the testing of market reaction to consumer goods and especially goods that are of relatively low value to the consumer. With high value consumer goods it will be tougher because the costs are higher and purchasing decisions harder. It may be tougher still with industrial goods, simply because businesses will have existing suppliers and buying from you, even if they like the results of their trial, may require the displacement of an existing supplier and a considerable amount of administration work. Test marketing, as described in this factsheet, is a way of testing whether products will sell. Selling services is generally much easier, though some of the techniques can be applied to the sale of services as well, but perhaps more as a way of breaking into a new market.

2. The purpose of test marketing

You will want, from your test marketing, not only to answer the over-arching question about whether people will buy, but also to gather information, in so far as you can, about the elements of the marketing mix: the product and whether it confers the benefits sought by customers, the promotional message, the place (that is, the distribution channels) and the price (see PROFIT factsheet on *Marketing mix* for further information on the 4 'P's').

Advantages of test marketing include:

- You acquire information based on actual customer spending (though remember that customers will be 'test-consuming' so you may need to take care with the results);
- You reduce the risks associated with a big, perhaps national, launch;
- You can adjust the elements of your marketing mix;
- You give more confidence to your potential partner(s) in the target country about the likelihood of your product selling resulting in more effort from them to move your product to market;
- If you need to raise additional finance to internationalise, you give more confidence to the financial institution that there is a market and thus less lending risk; and, possibly,
- You can create a promotional buzz, though this is more likely with big national or international companies and less likely with a small business.

There are some disadvantages as well, including:

- Your test market not being representative of the larger market;
- Potential competitors spotting what you are doing and even beating you to market;
- Raising expectations amongst potential customers and then not being able to meet them in their desired timescales;
- Taking a step-by-step approach will mean it takes longer to make the additional profit that you seek – which is true but is probably offset by the lower risk of failure.

3. Undertaking a market test

There are many different ways in which you can undertake a test, though most will require that you work closely with a 'partner' in your target country. The partner may be a potential distributor, wholesaler or retailer who sees the potential and is keen to work with you. In the absence of such a business, you may be able to find a university business school or marketing department, that is looking for an interesting project for their students, and persuade them to work with you. Depending on the product or service, you may even jump

in and establish a representative office and just start selling. After all, that is the best test of whether a market exists.

3.1 Consumer goods

Consumer goods covers goods bought on a regular basis (for example, cosmetics, food and household cleaning goods) as well as those bought much less frequently (for example, smartphones and electric drills) as well as though that might fall in between (for example, clothes). For one-off purchases, especially where the value is high, test-marketing may not be the most appropriate way to assess the market and you may need to resort to working closely with distributors and agents. One option, of course, is to persuade them to take a small order, perhaps lower than the economic order quantity, for them to aim to sell through their usual channels. You will then be keen to assess what it is that encourages consumers to try out your product – and you will want to be especially alert for customer feedback. Indeed you may encourage it, say with a competition as suggested below.

For goods for which repeat purchase is expected, you will ideally want to assess behaviour as follows:

- Trial: Will potential customer try your product, at least once?
- Repeat: Will customers repurchase after the trial?
- Adoption: Going further than occasional repeat business, will customers positively adopt your product and continue to purchase?
- Frequency: How often will customers buy your product?

Market researchers use a variety of test techniques such as sales-wave research (where consumers are offered the product again and again, often free of cost, to determine whether they are willing to keep using the product); simulated test marketing (in which the test product is placed alongside competing products in a retail outlet, selected customers are invited to buy anything and preferences can be assessed); controlled test marketing (in which selected retail outlets are asked to stock the product, usually in return for a fee); and test markets (in which there is a full scale launch on a geographically limited basis such as a city or region).

For clients of PROFIT, however, there are some other approaches that can be considered for both repeat and one off purchases:

Having identified the outlets that might sell, encourage a handful to stock and sell, for a limited period. This can often be combined with an 'introductory' (that is, artificially low) price to encourage purchase, or with advertising which includes the provision of 'money-off' vouchers. With the latter, the production costs to you will be the same but you will need to undertake initial marketing. The benefit, however, is that through the use of vouchers customers have a greater awareness of the real value. If it works, there is no need to stop

the test – all that needs to happen is that you keep on supplying the retailer or wholesaler and slowly expand to more outlets.

Given the big increase in e-commerce, you can adopt a similar approach to place your product with a local (that is, located in the target country) e-commerce business.

Focus group discussions are always a good way to gain insight and they can be effective as a way of securing feedback from potential customers or the shops that you select to stock the products. Ideally, you will have a partner in the target country who can organise one or more (ideally three or four) discussion groups of say 10-15 people each. You take your product and maybe competing products as well and you facilitate a discussion. Whilst the insights may well be helpful in terms of tweaking your marketing mix, you will still need to get the product into the hands of consumers, so may want to combine this with the limited retailing approach outlined above.

For new products or old products in new markets, you may want to run a competition for purchasers designed in such a way that they need to answer some market research type questions for you as part of their entry to the competition.

3.2 Industrial goods

Test marketing industrial goods is harder. However, there are ways of doing it and indeed the focus group approach can work just as easily with businesses as it can with consumers.

You can take your products to trade fairs and ask visitors what they think. Do not try to sell at the trade fair. Use it as an opportunity to quiz people about their needs and the benefits they seek. If you think that they might be a prospect, ask for a business card and chase them up later. Your challenge at the trade fair is to gather as many cards as you can since that then maximises the number of people with whom you can follow up.

The ideal, of course, is to persuade a potential customer to take some of your product and test it out for themselves. Even if they ultimately choose not to buy, they will almost certainly be willing to share reasons with you and you can use these to refine your product further. Businesses usually do not need to be incentivised with a competition, but are often willing to give detailed feedback simply because they are not often asked and like to share their opinions. If you offer free trials, of course, then a condition should be that the potential customer will give you feedback.

If your goods are higher value, then it may not be economically worthwhile to provide test samples, and you may find that you cannot test the market at all. In this case, you just have to keep looking for a launch customer though, as with consumer goods, you may find that setting up a representative office gives confidence to potential customers that you will be able to provide the quality and after-sales support that they need and expect.

4. Conclusion

Test marketing is not possible for every product or for every market but, for smaller businesses with limited resource to undertake market research, it can be a much better way of researching the market than commissioning traditional market research. Think carefully about what, precisely, you are trying to test and then think about the most effective way to do that. Ideally, you will work with a partner – or a business that is potentially interested in becoming a partner – in your target market. Take care with interpreting the results and do not allow yourself to be lulled into a false sense of security.

5. Further information

Klompaker, J.E, Hughes, G.D & Haley, R.I (1976) Test marketing in new product development, Harvard Business Review,[online] hbr.org/1976/05/test-marketing-in-new-product-development

Drive Research has some interesting case studies of test marketing exercises in which the results were mis-interpreted. See www.driveresearch.com/market-research-company-blog/your-ultimate-guide-to-test-markets-top-test-market-cities-syracuse-ny/

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