Guide 2: Understand the market

Your goal

Find out how customers already meet their needs. Consider outside changes that could help or harm a new business. Use this work to suggest how your business might compete.

Bring your customer problem, need, or want from Task 1. You do not need a finished product idea yet.

What to produce

- A first PESTEL analysis of a possible market.
- An initial plan to seek competitive advantage.

Your work is a starting point. You will return to it after testing your idea. Use paper or your own document. Follow your teacher's submission instructions. The prompts below help you complete the task; they are not extra project requirements.

Key terms

- **Market:** the buyers and sellers of a good or service.
- **Competitor:** another business that customers could choose instead.
- **Competitive advantage:** a reason customers might choose one business over its competitors.
- **Opportunity:** a condition a business could use to help it succeed.
- **Risk:** something uncertain that could harm the business.

PESTEL is a way to organise outside factors: political, economic, social, technological, environmental, and legal.

Step 1: Describe the market

Who might buy a solution to your customer's problem? Where could those customers buy it? Start with a market you can learn about. It might be local, online, or both.

Do not assume that everyone with a problem will pay for a solution. A customer might use something they already own, borrow an item, or do nothing.

Step 2: Find alternatives

Look for businesses or other options that customers already use.

- **Direct competitors** offer similar products to similar customers.
- **Indirect competitors** meet the same need in a different way.

Record what each option offers and any evidence you can find about price, convenience, or features. Note the source and date. If you cannot check a detail, mark it as unknown.

Do not call an option weak only because it is different from your idea. Ask why a customer might prefer it.

Step 3: Apply PESTEL

For each category, consider a relevant opportunity and risk. Explain how the factor could affect this market. Avoid listing labels without a reason.

- **Political:** government priorities or decisions. Could public support or changes in trade affect the business?
- **Economic:** income, prices, and the wider economy. Could customers' spending or input costs change?
- **Social:** people's habits, values, and ways of living. What might change what customers want?
- **Technological:** tools and methods. Could technology change production, buying, or delivery?
- **Environmental:** the natural environment and use of resources. Could waste, weather, or material use matter?
- **Legal:** laws and legal duties. What rules would the business need to follow?

Use reliable sources for factual claims. A possible future change is not a current fact. If a factor needs more research, write the question you need to check rather than inventing an answer.

Example: Ready Pouch explores its market

Ready Pouch is our fictional example business. Here, we explore a possible customer problem before choosing a product.

These are questions to investigate, not research findings.

For students who struggle to find loose pens, possible alternatives include pencil pouches, a bag with built-in sections, and using a pocket in a bag they already own. The last option may cost the student nothing extra.

An economic question is: “Can customers afford a new organiser?” An environmental question is: “Would customers value a durable item that replaces fewer products?” Neither question proves demand.

A possible competitive plan is to offer a small pouch that is easy to open. The team would need evidence that customers value this difference. “Our product is best” does not explain an advantage.

Step 4: Suggest an initial advantage

Use your competitor and PESTEL work. Explain:

1. Which customer you would serve.
2. What you might offer differently.
3. Why that difference could matter to the customer.
4. What you still need to test.

Your advantage could involve service, convenience, quality, features, or price. A low price needs a realistic way to cover costs. You will study costs later.

Your turn

Create your first market analysis and competitive plan. Optional sentence starter:

“Our potential customers currently use [alternative]. We could compete by [difference]. This may matter because [reason]. We still need to check [unknown].”

Check your work

- I considered direct and indirect competitors.
- I explained relevant opportunities and risks across PESTEL.
- I recorded sources for factual claims and marked unknowns.
- My plan explains a customer benefit.
- I have not claimed that my advantage is proven.

Next: Talk with potential customers

In Task 3, you will use customer interviews to test whether your starting problem, need, or want is supported by evidence.

Independent guidance based on the AP Business with Personal Finance CED, printed pages 152-153. This is not an official College Board resource.