

LO1: Understand how to target a market

Customer Segmentation / Market Segmentation
= grouping potential customers together based on different factors (see below)

Age Segmentation

Gender Segmentation

Occupation Segmentation = the jobs or careers that target customers might have

Income Segmentation = target customers can be grouped based on how much they earn

Geographic Segmentation = businesses can group target customers based on location/ where they live

Lifestyle Segmentation = target market can be grouped based customers' hobbies, routines and habits.

Customers vary because of the:

- Amount of money able/willing to pay
- Quantity of goods they require
- Quality of goods they require
- Time and location they wish to buy goods

Benefits of Market Segmentation

- More likely to meet the wants/needs of specific customers
- More likely to make sales because they've focused on specific groups
- More able to focus their advertising at the right groups of customers
- Potential for increased profits

Market = A place where buyers and sellers come together to buy an sell products and services

Target Market / Target Customers = A particular group of customers at which a service or product is aimed

Market Share = the section of a market controlled by a particular business

Customer Feedback = the ways a business allows customers to tell them what they think about their products or services

Customer Feedback Techniques:

- Social Media
- Websites with reviews
- Customer comment cards
- Telephone/email surveys

Customer Retention = the ability of a business to keep customers

Market Research = The process where a business finds out about what customers need and want

Purpose of Market Research

- to reduce risk
- to find out what customers want and need (to help a business develop their products so they're successful)
- to understand customers' tastes and opinions (e.g. so a business can change its design.
- to see what products are already on the market and what competitors are doing

Primary Research = when a business gather its own data and information

Examples
Surveys, questionnaires, focus groups, observations, consumer trials

Positives:

- Up-to-date information
- Exactly what the business wants to find out
- Made for their own specific needs

Negatives:

- Expensive
- Time-consuming
- Slower to get results

Secondary Research = gathering data and information that has already been collected before

Examples
Internet research, newspapers and data already collected by competitors, Government statistics.

Positives:

- Cheaper
- Quicker to get information

Negatives:

- Not specific to the business' needs
- Doesn't allow the business to ask further questions

LO2:

Understand what makes a product/service financially viable



Costs

Costs are the things businesses have to pay for.

Fixed Costs

Fixed costs are things a business pays for that **do not change** – these costs stay the same no matter how many products a business produces.

Key examples:

- Rent
- Insurance
- Salaries

Variable Costs

Variable costs are the costs a business pays that **change depending on how many products a business produces** – these costs increase when more products are made.

Key examples:

- Raw materials
- Stock
- Packaging



Total Costs

$$\text{TOTAL COSTS} = \text{Fixed Costs} + (\text{Variable Cost Per Unit} \times \text{Units Produced})$$

Example:

Fixed costs = £1000

Variable costs = £0.20 per cupcake

Units produced = 500 cupcakes

$$£1000 + (£0.20 \times 500)$$

$$£1000 + £100 = £1100 \text{ Total Costs}$$

Revenue

Revenue is the money generated from selling products or services. It is not profit, but the money coming in to a business from sales.

$$\text{REVENUE} = \text{Selling Price} \times \text{Number of Sales}$$

For example I sell 20 cupcakes at £1.50 each.

$$\text{Revenue} = \text{selling price} \times \text{number of sales}$$

$$\text{Revenue} = £1.50 \times 20$$

$$\text{Revenue} = £30.00$$

Profit

Profit is the money left over from revenue once costs have been paid – it's the money a business makes once all costs have been covered.

$$\text{PROFIT} = \text{Sales revenue} - \text{total costs}$$

Example

$$\text{Sales revenue} = £100$$

$$\text{Total costs} = £80$$

$$£100 - £80 = £20 \text{ profit}$$

Remember the business can make a loss and if they do, this is shown with a minus figure.

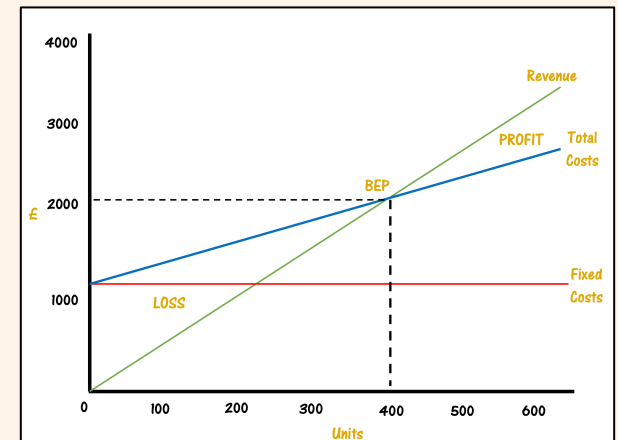
Break Even

Break-even is the point at which a business **does not make a profit or a loss** – its revenue from sales and its total costs are **equal**.

Working out the Break-Even Point helps businesses to know how many products to produce for them to make a profit.

$$\text{Fixed costs} \\ \text{Selling price per unit} - \text{variable cost per unit}$$

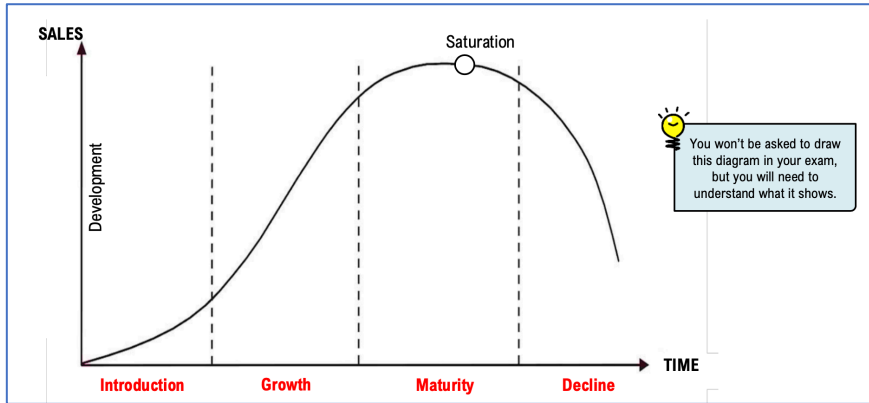
Break Even Graph:



What is this business's Break-even Point? **400 Units**

The Product Lifecycle

The **Product Lifecycle** is the period of time in the life of a product - from its launch until it is taken off the market.



5 Stages of the Product Lifecycle

Development – the stage before the product is released (designing, testing, completing their market research, etc.)

Introduction –the product is launched into the market (advertising the new product a lot, might include introductory offers)

Growth – sales of the product increase (remember, not all products go through all stages of the lifecycle – some may decline and never grow!)

Maturity – most customers have tried or bought the product. New competitors might be on the available. Sales are at their highest, rate of growth is now slow.

Decline – sales fall. Continuing this trend will mean that the product will be withdrawn from the market.

LO3: Understand Product Development

Product Differentiation

Product Differentiation refers to what is DIFFERENT or what STANDS OUT about the product or service.

How?

- build a strong brand image for goods or services.
- focus on the function, cost and appearance of their products (**the Design Mix**).

To stand out, business could offer improved/better:

- Product Features/Functions
- Better services (delivery etc.)
- Selling Prices
- Design/Appearance of their products

USPs

USP stands for **Unique Selling Point**.

= a specific thing that a business identifies about their product or service that is different (unique)

How are USPs used?

- A business can use a USP in their advertising.
- Having a USP will help a product stand out.

Extension Strategies

An **Extension Strategy** is the action a business takes when a product is in the **decline** stage of the **Product Lifecycle**. These actions aim to extend the life of a product and should improve sales.

Examples:

- **advertise** - to remind customers that it exists
- **reduce price** - to encourage new sales
- **explore other markets** – like selling in another country
- **packaging updated** - to get customers' attention

External Factors

External Factors are things that are out of a business' control that they must consider when developing new products or services.

Examples:

Technological Developments – Businesses must keep up to date with these developments or they'll be left behind by competitors.

Economic issues – unemployment, recession, boom and other economic factors may affect how a business's product

Legal Issues – businesses need to make sure they understand different laws when producing and selling products and make sure they do not break any of these laws

Setting a Price

Business need to think carefully about the price they will charge as this will depend on:

- **Income** levels of customers – how much they earn & how much they are willing to pay
- Price of **competitor products**
- **Cost of production**

Pricing Strategies

Competitive Pricing

When a business looks at what competitors are charging when considering what price to charge. It doesn't always mean they charge a lower price.

Psychological Pricing

When businesses avoid using round numbers, instead choosing to end prices with figures like 99p. This gives the psychological impression that the products are not as expensive - £2999 instead of £3000, for example.

Price Skimming

When businesses charge a **HIGH** price for a new product or service because people will be willing to pay for it as it's new and sought after. This price is then lowered over time (**SKIMMED**) as other products are released or the product becomes more common.

Price Penetration

When businesses charge a **LOW** price when a product or service is first launched and then **increase** the price over time. This encourages people to give the product or service a chance, with the hope that they'll buy it again. This is a way of changing customers' established buying habits.

LO4:

Understand how to attract and retain customers

Types of Advertising

- Leaflets
- Social Media
- Websites
- Newspapers
- Magazines
- Radio

Sales Promotion Techniques

- Discounts
- Competitions
- Buy One Get One Free (BOGOF)
- Point of sale advertising
- Free gifts/product trials
- Loyalty schemes

Customer Service

Customer service is the **help, advice and support** provided by a business to customers. It is the experience the customer has when purchasing the product.

Customer service techniques:

- **Product knowledge**
- **Customer engagement** – staff should be polite and make customers feel special
- **After sales service** - businesses can offer guarantees on products, maintenance and servicing

8-MARK QUESTION

- **8-MARK questions** are based on LO4
 - You may be asked to compare two techniques/strategies
1. **Explain** each technique/strategy
 2. **Positives** and **negatives** of both
 3. Talk about them **in the context** given
 4. **Choose one** and discuss why (why this one, why not the other)



Sole Trader

Number of Owners: 1 (one owner, but can have employees working there)

Legal Requirements to Start: Register as self-employed with HMRC

Liability: **Unlimited Liability** – the debts are the responsibility of the owner.

Decision Making: The owner is responsible for all the business's decisions.

Profits: The owner chooses what to do with any profits made.

Partnership

Number of Owners: 2 minimum

Legal Requirements to Start: Register with HMRC. A Deed of Partnership is also usually drawn up to state how the business will be run.

Liability: All partners will have **Unlimited Liability**. They will all be responsible for any debt the business may have.

Decision Making: Decision making is shared between partners.

Profits: % will be agreed within the Deed of Partnership.

Limited Liability Partnership (LLP)

Number of Owners: 2 minimum

Legal Requirements to Start: Register with HMRC and complete an LLP Agreement that outlines how the LLP will be run.

Liability: Partners have **Limited Liability**.

Decision Making: This will be decided when the business is formed and written in the LLP Agreement.

Profits: Decided in the LLP Agreement.

LO5:

Understand factors for consideration when starting up a business

Liability

Liability means responsibility and it refers to whether owners will be responsible for the debt of a business.

Unlimited Liability

This is a risk for a business owner as, if they have **UNLIMITED Liability**, they are **responsible for all the debts** of a business.

Limited Liability

If an owner has **LIMITED Liability**, they will only lose the amount they have invested in a business (the liability/ responsibility is limited).

Franchise

A **franchise** is when someone buys the rights to an existing business's name and operations to run as their own business.

Positives

- Guidance and help from the franchisor
- The business idea is already a success, so more likely to succeed
- Benefit from any advertising the franchisor does

Negatives

- Have to pay the franchisor for the rights to their name –more expensive than setting up a new business.
- Franchisees must pay **royalties** to the franchisor on a regular basis.
- Limits what an owner can do (they can't use their own ideas).

Capital

Capital is the money that is used to start-up a new business or to launch a new product.

Sources of Capital

Own Savings – They won't have to pay interest (unlike a loan) but do risk their own savings if investing.

Friends & Family – No need to pay interest, but might cause relationship problems if not paid back.

Loans – Quick to get but will have interest added to the amount paid back.

Crowdfunding – Where lots of a people pledge small amounts of money, usually online - can be slow to raise the money.

Small Business Grant – Sometimes Governments give grants to encourage businesses to set up. Some grants do not require pay back or may be interest free.

Business Angels – Investing in a business idea in exchange for pay back or part ownership of the business ('Dragons Den').

Business Plan

A **Business Plan** is a document that is drawn up before a business is launched to describe the new business idea.

A Business Plan should contain:

- Business Aims and Objectives
- Business Strategies
- Business Operations (how will the business be run)
- Sales & Marketing Plan
- Financial Forecasts

Why have a Business Plan?

- Reduce the risk of failure, especially if the plan is detailed and realistic.
- Used to share the business's ideas (with banks, investors, etc.)

What is a Functional Area?

A Functional Area is a 'department' within a business. Each department has its own specialisms and responsibilities. Functional Areas will often work together, communicating to ensure the business runs smoothly.

Cambridge National in Enterprise & Marketing
R064 Learning Outcome 6

Functional Activities

Human Resources

Description...

The Human Resources Functional Area deals with the business's employees.

If you think that this function deals with the PEOPLE, then it should be easy to remember by relating the word HUMAN to PEOPLE within the business.

Main Activities/Responsibilities...

- Recruiting employees
- Ensuring the right number of people are working within the business (no shortages, not too many employees)
- Training employees
- Performance management (giving employees targets and checking on how well they're working)
- Health and Safety within the workplace
- Ensuring the business keeps to all laws relating to employment and employees

Marketing

Description...

The Marketing Functional Area is responsible for identifying what customers wants and needs are.

This Functional Area is then responsible for developing products that meet these wants and needs.

Main Activities/Responsibilities...

- Carrying out Market Research
- Finding out customers' opinions
- Gathering feedback from customers
- Developing a marketing mix for the products the business offers focusing on PRICE, PRODUCT, PLACE and PROMOTION

Operations

Description...

Sometimes referred to as the 'Production Department', this Functional Area is responsible for the process that turns inputs (raw materials) into outputs (finish goods) that can be sold to customers.

Main Activities/Responsibilities...

- Planning how products will be manufactured
- Producing the product or service
- Quality control
- Stock control
- Ordering stock
- Logistics (delivery of stock / finish products)

Finance

Description...

This Functional Area is responsible for everything to do with money in the business. They also organise the financial performance reports on an annual basis.

Main Activities/Responsibilities...

- Budgets
- Organising resources
- Ordering
- Preparing financial statements
- Reporting on financial performance

What is the difference between function activities in a small start-up business and a large company?

In a small business start-up, all of the above functional activities are likely to be carried out by the same person (if it's a sole trader business) or a handful of people (in a partnership). There won't be dedicated teams of people to do all of the different activities required.

In larger firms, Functional Areas will have big teams of people all working together on specific tasks within the same department. The departments will still communicate with one another, but there is less likely to be shared responsibilities.

Which Functional Area would complete the following tasks?

Checking Quality of Products

Operations

Organising delivery of parts

Operations

Carrying out Market Research

Marketing

Health and Safety

Human Resources

Manufacturing Products

Operations

Advertising Products

Marketing

Paying employees' wages

Finance

Posting adverts for a job vacancy

Human Resources