Cambridge National in Enterprise & Marketing

R064 Enterprise & Marketing Concepts

Revision Mind Maps

Devised by B. Palmer

Start on a green arrow then follow the red arrows!

LO1

Primary (field) research is when new data is generated; the information gathered does not already exist.

There are many different methods that can be used for market research. Each method can be grouped as **primary** or **secondary**.

Market research is the process of finding out what potential customers want/need and/or finding out about what is already available on the market (competitors).

Primary research is...
- Suited to the specific needs of the business.
- Only available to the business; competitors won't have access to it.
- Usually slow to conduct.
- Usually expensive to carry out and analyse.

Secondary (desk) research is when businesses use data or information that already exists.

Secondary research...
- Is cheaper to carry out than primary.
- Is quicker as the data already exists!
- Is not always suited to the business's specific needs.
- May be out-of-date/unreliable.
- Is available to everyone - including competitors!

<u>Primary methods</u>
- Questionnaire
- Survey
- Observation
- Consumer Trial

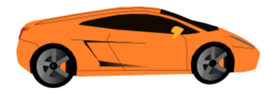
<u>Secondary methods</u>
- Books
- Newspapers
- Government publications
- Competitors' data

Market Research has its benefits...
- Market research provides businesses with potential customers' opinions.
- It reduces risk; businesses are more likely to make something people want to buy!
- Market research can inform decisions on product development.
- It helps businesses understand their market (what's popular, what's missing?).
- Research can be used to make key decisions about products and marketing.
- Market research can help promote the business.

Markets can be segmented by...
- Age
- Gender
- Occupation (job)
- Income
- Geographic (area)
- Lifestyle

For example...

Gender / Lifestyle



Income

Geographic

Market segmentation is when businesses divide customers into groups (or segments) based on different criteria.

Market segmentation is needed because **all customers are different** based on...
- Their needs
- What they are <u>able</u> to pay
- What they are <u>willing</u> to pay
- Amount (quantity) of goods required
- The quality they expect
- Time & location they want to buy

Businesses need **feedback** from their customers so they can **improve**, potentially **make more sales** and/or **keep their customers** returning.

They can get **feedback** by...
- Asking customers face to face
- Social Media/Comments
- Customer comment cards
- Online surveys
- Online reviews
- Phone surveys

If markets are segmented, businesses should...
- Have a better understanding of their customer and their customers' needs.
- Be able to target their customers easier through their marketing and advertising.
- Be able to tailor their products to suit their customer (design products for specific groups).
- Have potential for increased profits.
- Retain (keep) their customers.

LO2

Costs are the things businesses have to pay for in order to operate. These costs can be grouped as **fixed** or **variable**.

Fixed costs are the costs that stay the same no matter how many products a business produces/sells.

Examples of **fixed costs** include...

- Rent
- Loan payments
- Insurance
- Salaries
- Utilities (gas etc.)
- Advertising

Variable costs are the costs that change depending on how many products a business makes/sells.

Examples of **variable costs** include...

- Raw materials
- Components (parts)
- Stock
- Packaging

Total Costs are the fixed and variable costs added together.

To calculate **Total Costs**...

- Work out the **variable cost** for one unit (product).
- Multiply this by **output** (number of products made/sold).
- Add the total fixed costs to this number (once).

Or if you prefer a formula...

Total Costs = Fixed Costs + (Variable Cost x Output) ...for 1

Tip: If you divide this total costs value by the output, you get **total cost per unit**!

Revenue is the name given to the amount of money the business makes from selling products. It's not profit.

Revenue is calculated by...

Number Sold x Selling Price

So, if a business sells 1000 products for £1.50 each, their **revenue** is £1,500 (1000 x 1.50).

Profit is the name given to the money left over from revenue after all costs have been paid.

Total Profit is calculated by...

Total Revenue - Total Costs

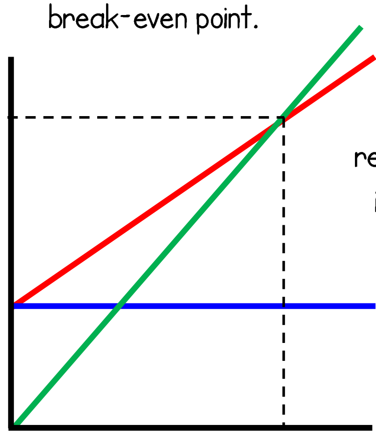
Profit per unit is the profit made for each product sold. This can be calculated by...

Selling Price - Total Cost per Unit

(or you could calculate total revenue, take off total costs and divide your answer by output)!

Break-even is the term given to the point at which a business has covered its costs, but is not yet making a profit. It is the point where the business no longer makes a loss, but does not yet make a profit either.

Break-even can also be displayed/calculated using a graph.



The point where red and green **cross** is the break-even point.

The blue line shows fixed costs - it's always a straight line because they don't change!

The red line shows total costs, this starts at the top of the fixed costs line.

The green line shows total revenue. It always starts at 0; if you sell nothing, you make nothing!

A business's **break-even point** can be calculated using this formula...

$$\frac{\text{Fixed Costs}}{\text{Selling Price - Variable Cost per Unit}}$$

So if a business has fixed costs of £4000, sells products for £2.50 and each product costs £0.50 to make, their break-even point would be calculated like this...

$$\frac{4000}{2.50 - 0.50} \Rightarrow \frac{4000}{2.00} = 2000$$

This business needs to sell **2000 products** to break-even.

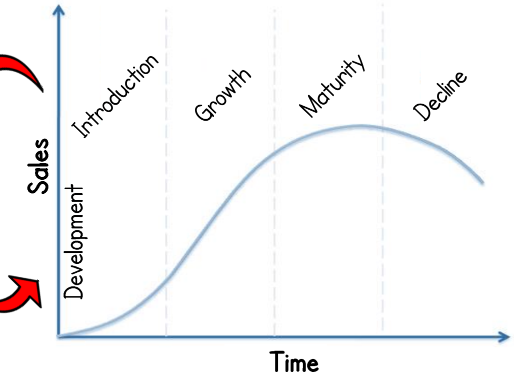
LO3

Strategies include:
- New packaging
- Advertising
- Price changes
- Improving the product
- New target customers
- Selling in new markets (different areas)

In the **decline** stage, sales decrease. If they continue to decline, the product will be **withdrawn** from sale.

In the **introduction** stage, the product is launched. If popular, sales increase.

Development is the stage before the product launches. It is being designed and tested and market research is taking place.



The **product lifecycle** shows the various stages a product will go through in its life.

In the **growth** stage, the product's sales increase rapidly. More people try it and, if popular, there are repeat sales.

In the **maturity** stage, sales slow down. Competitors start releasing rival products too. No new sales are made.

Extension strategies are used to avoid products going into decline.

Businesses can try to extend a product's life by using **Extension Strategies.**

All products have a 'life' - the amount of time they are 'popular' for. For some products, this is a long time. For some, however, it's a short time before they're no longer available.

Businesses often identify a clear **USP** (Unique Selling Point) for their products. This is something unique about their product that makes it stand out from others that are available.

Product development can be changed based on **external factors**; these are things **outside** of the business that they cannot control.

Differentiation can also be achieved by:
- Improved location
- Product features
- Better functions
- Improved design
- Appearance
- Selling Price

Product differentiation refers to how a product is different or stands out from others on the market.

Laws relating to copyright, patents and product safety are all linked to product development.

Laws can change how businesses develop their products and may mean that products need redeveloping over time to meet new laws that are introduced.

Legal issues relate to the law. Businesses need to keep up-to-date with the laws in the country they operate.

External Factors can be...
- Technological issues
- Legal issues (law)
- Economic issues

For example, if safety **laws** change, it may mean a business needs to redesign its product or change materials etc. This can be expensive.

Economic issues relate to the economy; money, jobs, spending power and tax. They link closely to the **business cycle.**

Technological issues relate to developments in technology that impact on how products are made or change customer preferences.

Recession is an **economic** issue. Less people will be in work, which means they have less spending power. Sales / profits are likely to fall.

Growth is also part of the **business cycle.** If an economy is growing, a business will make more sales.

Boom is also part of the **business cycle.** During a boom, there are plenty of jobs and people have money to spend. The economy is doing well! **BOOM!**

Decline follows a boom. Less people are employed, businesses can struggle to make sales.

For example... New **technology** may mean products can be made quicker or of better quality - if a business does not invest in this, they may lose out to competitors.

(The red titles are parts of the **business cycle**!)

LO4

Businesses consider a range of factors when choosing what **price** to charge for their products.

Prices need to take into account…

- Income of target customers
- Prices competitors charge
- Cost of production

Businesses often use **pricing strategies** when setting the prices of their products.

Price skimming is used for new product launches. A high price is charged at first, because there's demand for it. This price is lowered later. This strategy is often used for new technology.

Competitive pricing is when businesses look at what competitors charge and then price similarly, or lower, to gain advantage.

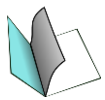
Psychological pricing is when businesses use prices like £9.99 instead of £10.00 to make products appear less expensive.

Price penetration is another strategy for new products, but used in crowded markets where other popular products exist. A low price is charged at first to encourage customers to break habit and try it…this price is increased later.

Businesses use **advertising methods** to attract new customers and keep existing customers returning.

Advertising methods include:

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

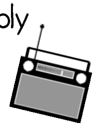


You need to consider **advantages** and **disadvantages** for each method based on costs and potential to reach the target customer.

For example, **leaflets** are cheap… but how many people actually look at them?

Newspapers can reach a large number of people, but if your target customer is 15…are they likely to be reading the paper?

Radio can reach VERY large numbers of people, but it's probably the most expensive advertising method on the list above.



Social Media is likely to be a big hit with younger audiences, but may not reach older people or those who do not actively use social media platforms.

Magazines make it easy to reach your target customer, based on your market segmentation, because they're usually aimed at specific groups of people. Your reach may be limited with less people reading physical magazines now though.

Sales promotion techniques are also used by businesses to attract and retain (keep) customers.

Promotion Techniques include:

- Discounts
- Free gifts
- Competitions
- Loyalty schemes
- Buy one get one free offers

Businesses need to select the most appropriate techniques based on the products they sell, their target market and the advertising methods they choose.

For example, a buy one get one free offer isn't suited to a business selling mobile phones; most people have just one phone!

Customer service is related to how the business treats its customers.

Good customer service can mean customers keep returning to the business, leading to repeat sales.

Poor customer service can mean customers do not want to return, so there are less repeat sales. It may also lead to a poor reputation, which means the business could struggle to attract new customers.

It is easier (and cheaper) for a business to **retain** (keep) existing customers rather than attract new customers.

Good Customer service can be achieved by offering:

- Professional, friendly staff
- Good product knowledge
- Good customer engagement
- After sales service (repairs etc.)

LO5

Green Text = **Benefits**
Red Text = **Drawbacks**

Liability refers to who is responsible for any **debts** a business has.

Unlimited Liability means that owners are responsible for the business's debts if it cannot pay them. The owner's personal money/possessions can be used to cover the debts.

Limited Liability means that owners are **not** responsible for the business's debts if it cannot pay them - the owners just lose what they invested.

Businesses can be **owned** and organised in different ways.

- Sole trader
- Partnership
- Franchises
- Companies

A **sole trader** business is owned by one person. They can have workers…but they're the only owner.

Sole traders make all of their own decisions.

Sole traders choose what to do with the profit their business makes.

Sole traders can struggle to take time off or go on holiday.

Sole traders have unlimited liability.

Partnerships are businesses owned by two or more people.

Owners of partnerships find it easier to take time off.

Partnerships have more capital when starting up because partners' funds are combined.

Partners can bring different skills to the business.

Owners of **ordinary partnerships** have unlimited liability.

Decisions in partnerships are shared.

Owners of partnerships could disagree/fall out.

Limited Liability Partnerships also exist where owners have limited liability.

Franchisors are the businesses that sell their rights to others.

Franchisees are the people buying the rights to a business idea to run as their own.

A **franchise** is the name given to a business that sells the rights to allow other people to run a business under the same name/format as theirs.

This means their business will grow quicker.

Franchisors could get a bad reputation is the franchisee runs their business poorly.

Franchisees benefit from having a proven idea (less risk) and the experience of the franchisor.

Franchisees have to pay **royalties** on profits they make and cannot usually make their own decisions on how the business runs.

Businesses need money to start-up. This is called their **capital**. Where they get this money from is called their **source of capital**.

They could ask **friends or family**. This doesn't usually have interest but can cause friction if not paid back.

They could use their **own savings** to start their business. This means they won't have to pay interest but they'll be limited on how much money they have to start up.

Crowdfunding could be used - where lots of people donate small amounts (usually online). This can take a lot of time to get a large amount though.

They could go to the bank for a **loan**. This could mean they have more to invest than relying on their own money but they will have to pay back more than they borrow as **interest** is added on.

Business Angels is the name given to investors that can give businesses money to start up. They'll want a % of the business though.

Small Business Grants are sometimes offered to businesses. They can take time to apply for though and often specific criteria has to be met.

Before starting up, businesses often draw up a **Business Plan.**

Plans often contain:

- How the business will run (what it does/who owns it etc.)
- Financial data (cashflow, source of capital etc.)
- Objectives, strategies and other plans (like marketing)

Business plans reduce risk and allow businesses to foresee any problems before they happen.

Business plans are given to banks if applying for loans.

LO6

A **Functional Area** is the name given to a **department** within a business.

Functional activities are the roles/tasks that are carried out by different functional areas or departments.

In a large business, there are likely to be dedicated departments all with specific roles/tasks to complete. Each department will have specialist staff trained to focus on one particular area of the business. The finance function, for example, will have trained accountants.

In a small business, it is unlikely that they will have different departments. Some, or even all, of the functional activities will be carried out by the same person. For a new business start-up (especially a sole trader), this will almost certainly be the case.

Human Resources is the functional area that is responsible for the **people** within the business (the employees/workers)

Human Resources ensure the business meets employment laws (minimum wage etc.).

Human Resources ensure that all employees are performing well by monitoring targets.

Human Resources deal with training employees.

Human Resources deals with **recruitment** and **selection** of employees. This means employing the right people for the jobs they have available.

Human Resources are responsible for the **Health and Safety** of the workplace.

Marketing is the functional area that is responsible for ensuring the business makes products people want and that potential customers know about these products.

The **Marketing** function is responsible for carrying out **Market Research.**

The **Marketing** function will need to communicate with operations to ensure the business is producing products that people want.

The **Marketing** function is responsible for managing the business's promotions and advertising.

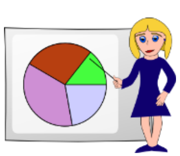
Marketing focuses on the **4 P's** (the **Marketing Mix**)... Product, Price, Place and Promotion. They make sure the business is selling and promoting the right products at the right price and available in the right places.

Finance is the functional area responsible for the money within the business.

The **Finance** function monitors the business's **cash flow** ... this is the money coming into and out of the business.

Finance give other functional areas **budgets** to stick to. This helps to ensure the business makes a profit.

The **Finance** function is responsible for producing all financial documentation required (for tax purposes etc.).



Operations is the functional area that is responsible for producing the products the business makes.

Operations turns **inputs** (raw materials) into **outputs** (final products for sale).

The **Operations** function is responsible for monitoring and managing the **quality** of the products they produce.

Logistics is a responsibility of the **Operations** function. This means ensuring raw materials, and eventually final goods, are where they are supposed to be and that they are there on time.