OCR Cambridge Nationals

Enterprise & Marketing

R064

Enterprise & Marketing Concepts

Revision Mind Maps

LO1: Understand how to target a market

1.1 The need for market segmentation

Market segmentation is all about splitting a market into groups of customers where they have similar needs to each other.

Customers vary because of the:

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

1.2 Types of market segmentation

- Age
- Gender
- Occupation
- Income
- Geographic
- Lifestyle

1.3 Benefits of market segmentation

- Ensures customers' needs are matched and met
- Potential for increased profits/profitability
- Increased customer retention
- Allows for targeted marketing
- Potential for an increase in market share.

1.4 Purpose of Market Research

- To reduce risk.
- To understand the market
- To promote the business
- To help in decision making
- To gain customers views and understand their needs
- To inform product development

1.5 Primary (field) market research

Primary market research is where a business will gather data from its source for its own specific reasons.

Primary methods are:

- Observations
- Questionnaires
- Surveys
- Focus Groups
- Consumer trials

1.6 Secondary (desk) market research

Primary market research is where a business uses data and information that has already been gathered.

Primary methods are:

- Internal data
- Books/newspapers/trade magazines
- Competitors data
- Government publications and statistics
- Purchased research material (e.g. Mintel)

1.7 The types of customer feedback techniques available to business start ups

Customer feedback is based on the opinions of the customers regarding their level of satisfactions for a given product, service or experience.

- Social Media/online communities with reviews and comments
- Online surveys
- Customer comment cards
- Comments made to staff members
- Telephone/email surveys

REMEMBER:

For 1.5 and 1.6 you need to know the benefits and drawbacks of each of the market research methods for higher marks

LO2: Understand what makes a product/service financially viable

2.1 Fixed Costs

Fixed costs are costs that do not vary with output

Fixed costs are:

- Rent
- Loan repayments
- Insurance
- Advertising
- Salaries
- Utilities (gas, water, electricity, etc.)

2.1 Variable Costs

Variable costs vary with output (the more output produced the more the variable costs go up!)

Variable costs are:

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

2.2 Revenue

Revenue is generated by sales of the product or service.

For example I sell 20 cupcakes at £1.50 each.

Revenue = selling price x number of sales

Revenue = £1.50 x 20

Revenue = £30.00

2.4 Profit Level

Profit is the amount remaining **AFTER** you have paid out for your costs.

Formula
Sales revenue – total costs

Example
Sales revenue = £100
Total costs = £80
£100 - £80 = £20 profit

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

2.3 Break Even

Break even is used as an aid in decision making. Businesses use it as a starting point to know which the income received from selling a unit covers the cost of supplying it. It is also referred to the point at which total revenue equals total costs; no profit or loss has is made at this level of sales but businesses will know what their minimum sales will be.

Formula

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

Example:
A cake making business has fixed costs of £100 per month. The variable cost per cake is approx. 80p. The selling price for each slice of cake is £1.30. What is the break even point for the cake making business?

Fixed Costs = £100 Variable costs per unit = 80p Selling price per unit = £1.30	$\frac{£100}{£1.30 – 80p}$	$\frac{£100}{50p}$	200 units to break even

The cake business will need to sell 200 slices of cake per month to break even where their revenue will be equal to their costs.

REMEMBER:

You need to know the formulas by memory as they will not be provided for you in the real exam.

LO3: Understand product development

3.1 Product Lifecycle

The product lifecycle is the period of time in the life of a product - from its initial launch until it is eventually taken off the market.

There are 5 stages in the product lifecycle:

- Development
- Introduction
- Growth
- Maturity
- Decline

Look on the next page for the product lifecycle graph and the description for each stage.

3.2 Extension Strategies

Before a product reaches the decline stage, the business will try it's best to extend the life of the product by adding extension strategies such as:

- ***Advertising*** – help attract new customers, remind existing customers, encourage repeat purchases
- ***Price changes*** – usually the price is reduced to encourage customers to buy again
- ***Adding value*** – examples are providing sugar free versions of foods, provide a 1 year warranty
- ***Exploring new markets*** – sometimes a business will need to find a brand new market for its products
- ***New packaging*** – provide a fresh new look to encourage existing and new customers to buy again.

3.3 Product Differentiation

Product differentiation is a way of making a product stand out, and be different from competing products.

There are a number of ways that a business can differentiate their products:

- Branding – this is the visual identity of the product and this is usually a combination of a name, logo or symbol, strapline and a distinct feature. The idea is that it will make it easier to influence customers.
- Design mix model – this is what to consider when designing a product:
  - Function –does the product work? Is it reliable? Does it have more than 1 function?
  - Aesthetics – how does the product look/feel/smell?
  - Economics – can the product be made quickly and cost-effectively?
- Unique Selling Point (USP) – John Lewis offer life time warranty on their products
- Improving a product – features, functions, location, design, selling price, appearance

3.4 External Factors

On occasions there are some things that a business cannot control that is going on in the world around them/outside of the business.
These external factors are:
Technological developments, **economics issues** and **legal issues**.

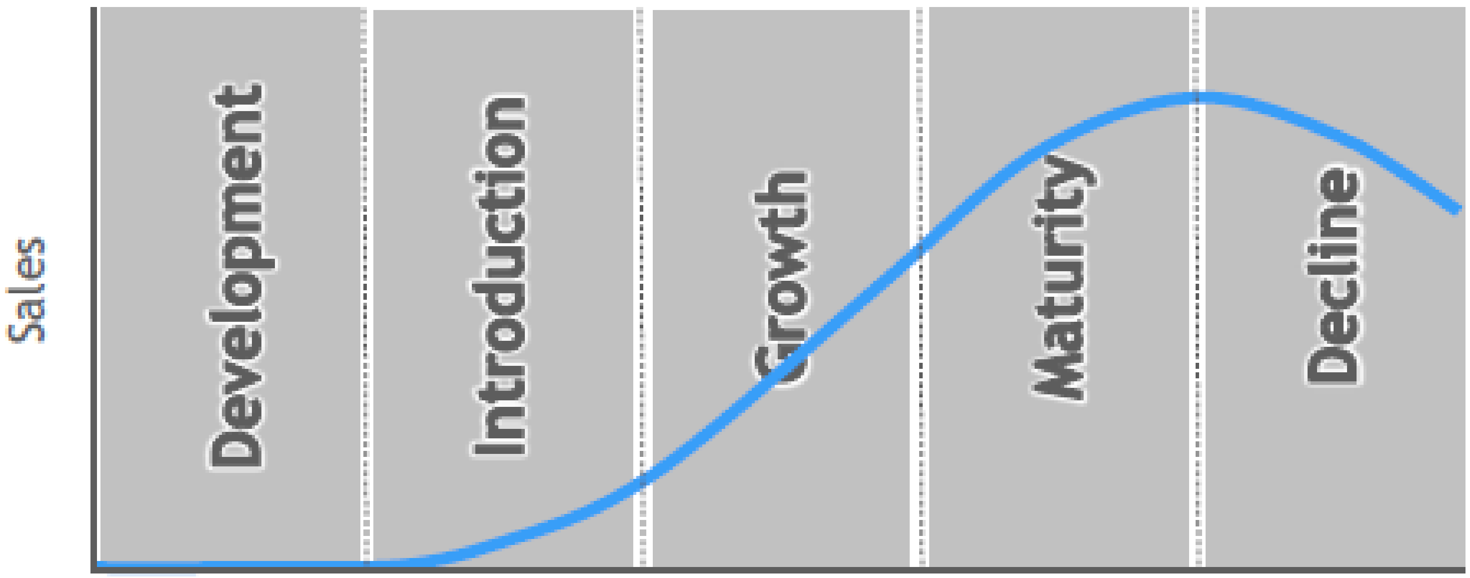
Technology in production
By using machines and robotics production can be automated (using machines to complete jobs humans would normally do).
New technology has changed the way what consumers expect from a product (TV's are expected to connect to Wi-Fi and browse online), how we pay (PayPal, mobile payments, contactless debit cards) and how we buy products (online access)

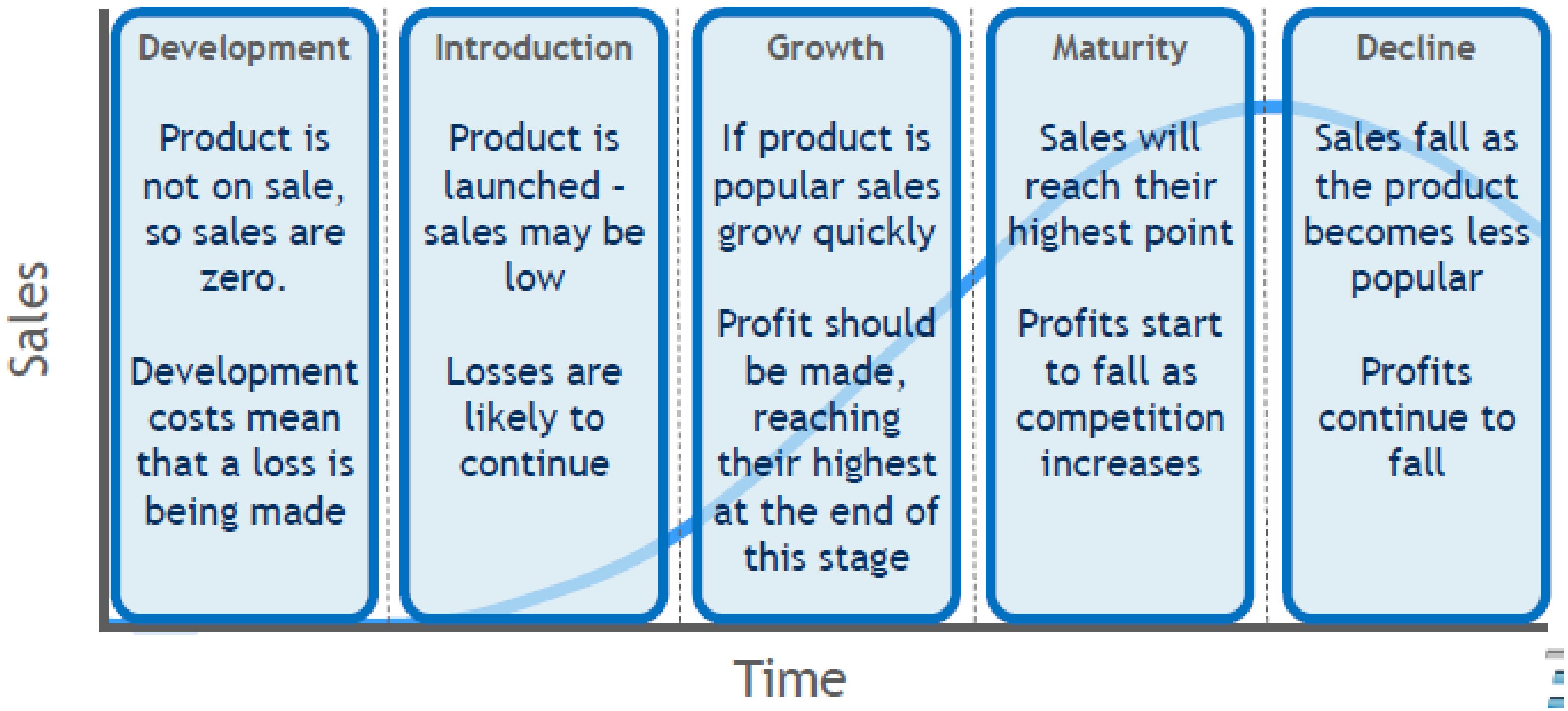
Economic issues – ***see next page***

Legal Issues
There are two main areas of law that affect businesses:

- Consumer Protection – Consumer Rights Act 2015
  - Consumer Protection Act 1987
- Intellectual Property – Copyright, Designs and Patents Act 1988

Images provided by BusinessEd.





4.1 Factors to consider when setting 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
- Price of competitor goods
- Cost of production

4.2 Pricing Strategies

Competitive Pricing
Takes into account the prices charged by competitors in the same industry

Psychological Pricing
Designed to cause an emotional reaction by consumers. Often a business decides to set the price at just below a rounded number in order to make it feel more attractive to consumers. For example, charging £299 instead of £300.

Price Skimming
Where a business decides to set a high price in order to maximise profits. The strategy is often used when a new, innovative product is launched.

Price Penetration
Where a business decides to set a low price initially in order to maximise the number of customers and then increases it over time. The strategy is often used to attract customers away from their normal brand.

LO4: Understand how to attract and retain customers

4.5 Customer Service

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

Business should ensure that customer service staff know about:

- The product
- Customer engagement
- After sales service

4.4 Sales Promotion Techniques

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

4.3 Types of advertising methods

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

LO5: Understand factors for consideration when starting up a business

Sole Traders:

One person who sets up and runs a business.

Cheap and easy to set up. Owner gets to keep all the profits

Unlimited Liability: Owner has sole responsibility for debts.

Partnerships:

2-20 people who own a business.

Cheap and easy to set up. Get to share ideas and all partners invest money (capital)

Unlimited Liability: Owners are responsibility for debts.

Private Limited Company

A company owned by shareholders who have limited liability. They have LTD after their name.

An LTD is owned by people who are friends or family. Can only sell shares to people they know.

Shareholders receive a dividend. % of profits.

They have to register to become an LTD and have to send accounts off each year to the registrar of companies in London. They would need an accountant to help. So more expensive.

Limited Liability: Shareholders can only lose what they invested and no more. It is the company responsible for debts not the owner.

Can sell more shares to raise finance.

Public Limited Company

A company owned by shareholders who have limited liability. They have PLC after their name. Shares are sold on the London stock exchange to anyone.

Shareholders receive a dividend. % of profits.

They have to register to become a PLC and have to show that they have £50,000 worth of share capital. They have to send accounts off each year to the registrar of companies in London. They would need an accountant to help.

Limited Liability: Shareholders can only lose what they invested and no more. It is the company responsible for debts not the owner.

Separation of ownership and control: Shareholders appoint directors who run the business. Shareholders do not run the business.

Can sell more shares to raise finance.

Franchise

One business allows another business to buy the right to trade under their name.

Examples are often in the service industries such as retail or food (Subway, KFC)

The franchisee signs an agreement with franchisor.
Franchisee provides the money to start up the business
Franchisee makes regular payments to the franchisor
Franchisor in returns allows the use of their business name over an agreed period of time and provides materials, training and advice.

Cannot sell the franchise without agreement of franchisor
Franchisee can't make all the decisions
Have to buy supplies from franchisor
Have to pay royalties to the franchisor

Sources of capital for business start-ups

- Own savings
- Friends and family
- Loans
- Crowd funding
- Small Business Grants
- Business Angels (investors like Dragons Den)

The importance of a business plan

- Clarify business ideas to others
- Measure progress towards goals
- Help manage cash flow
- Help identify potential problems

What the business plan should detail:

- Business objectives
- Business strategies
- Sales plan
- Marketing plan
- Financial forecasts

6.1 Purpose of each functional activities

Human Resources

Responsible for all aspects of managing individuals who work within a business

Marketing

Responsible for identifying the needs and wants of business customers and developing products/services to meet those needs

Operations

Organising the process that turns inputs into outputs/finished goods that can be sold to customers

Finance

Managing the financial resources in a small business and reporting on financial performance.

LO6: Understand different functional activities needed to support a business start-up

6.2 – Main activities of each functional area

Human Resources

Recruitment and selection, training and development and performance management of employees, responsibility of health and safety in the workplace, ensuring compliance with employment legislation.

Marketing

Market research – to research the market and find out customer opinions, developing a marketing mix (4 P's): Product. Price, Plan, Promotion

Operations

production planning, producing the product or service, quality control, stock control, logistics (organising what goes where),.

Finance

Organisation and allocation of financial resources, financial performance reporting, monitoring of cash flow.