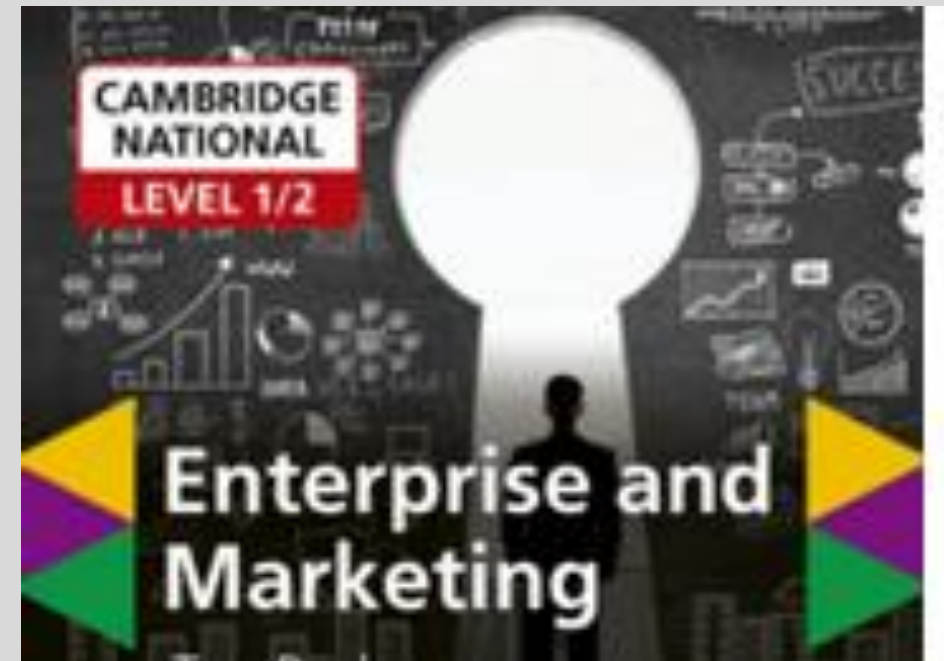


Knowledge Organiser

Enterprise & Marketing



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Topic: RO64 01 – Understand how to target a market

The need for customer segmentation, i.e. customers vary because of the:

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

Types of market segmentation, i.e.

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

The types of customer feedback techniques available to business start-ups, i.e.

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

Value of customer feedback for new and existing businesses includes.....

The purpose of market research, i.e.

- To reduce risk
- To understand the market
- To promote the organisation
- To aid decision making
- To gain customers' views and understand their needs
- To inform product development

Primary (field) market research methods (physical or digital), i.e.

- Observations
- Questionnaires
- Surveys
- Focus groups
- Consumer trials

Advantages: The information is up-to-date, the data is unique – no one else will have access to it, can be obtained quickly, if certain methods such as **opinion polls** are used.

Disadvantages: Primary research can be difficult to collect, or take a long time to collect, It can be expensive to collect, It can provide misleading or inaccurate results, eg if the sample size is not large enough, if the research is not **representative**, or if questionnaires are not worded clearly enough

The benefits of market segmentation, i.e.

- Ensures customer needs are matched and met (Develop or tailor products/services to meet customer needs)
- Potential for increased profits/profitability
- Increased customer retention
- Allows for targeted marketing
- Potential for an increase in market share

Secondary (desk) market research sources, i.e.

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

Advantages: Quick and easy to gather data, can provide industry specific information and often easy to analyse

Disadvantages: Not specific to the business, could be out of date, may be biased or inaccurate

Keywords:

Extension strategies - A strategy used by a business to try and extend the product lifecycle when a product reaches the maturity stage.

Feedback - Business need feedback from customers to improve, potentially making more sales and/or keeping their customers

Marketing - The functional area of a business which is concerned with identifying and satisfying customer needs.

Market Research – The actions of a business to gather information about customers' needs and wants and/or finding out about what is already available on the market

Market segmentation - The method of separating a market up into smaller customer segments. For example, separating the clothing market into gender and/or age groups.

Primary Research - when new data is generated or information gathered doesn't already exist

Secondary Research - when businesses use data or information that already exists

Target Market – A particular group of customers at which a good or service is aimed

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Topic: RO64 02 – Understand what makes a product or service financially viable

Fixed costs i.e. costs that do not vary with output, i.e.

- Rent
- Loan repayment
- Insurance
- Advertising
- Salaries (Annual pay)
- Utilities (Gas, Electricity, Water)

Variable costs i.e. costs that do vary with output i.e.

- Raw materials
- Components
- Stock
- Packaging
- Wages (Hourly/day rate pay)

Total costs (Fixed costs + Variable costs)

At 50 units of output, the fixed costs are £2,000. The variable costs are £500. What are the total costs? (£2,500 = £2,000 + £500)

The number of units increases from 50 to 60 units. The new variable costs are £600. What are the total costs? (£2,600 = £2,000 + £600)

The total variable costs for making 200 pies are £600. What is the variable cost per unit? (£3 = £600/200)

Revenue generated by sales of the product or service, i.e. Total Revenue = (Selling price x Number of sales)

REMEMBER – Revenue IS NOT profit!

Break-Even as an aid to decision making, i.e.

- Definition of break-even - the level of output where Total revenue = Total costs (No profit or loss is being made by the company)
- Break-even formula - Fixed costs / (Selling price per unit - Variable cost per unit)
- Break-even graphs - interpretation of a break-even graph in order to identify the break-even point
- How break-even information is used

Profit level, i.e.

- How profit per unit is calculated - i.e. Revenue (selling price) per unit - Total costs per unit
- How profit is calculated for a given level of output - i.e. Sales revenue - Total costs



Keywords:

Break-even point - the point where a business has covered its costs, but is not yet making a profit (Total revenue matches total costs) Formula:

fixed costs / selling price - variable costs per unit

Costs - Things businesses have to pay for in order to operate

Fixed cost – Costs that stay the same. A cost that does not vary with output. For example: rent, Salaries, Loan repayments, utilities, advertising, insurance

Market - A place where buyers and sellers come together to trade goods and services

Profit - the money left over from revenue after all costs are paid:

Total profit = total revenue - total costs

Profit per unit = selling price - total cost per unit

Total Costs - fixed and variable costs added together. Formula:

Total costs = fixed costs + (variable cost x output)

output = number of products made/sold

if you divide the total costs by the output it gives the total cost per unit

Total Revenue – The total amount of money earned at a particular output level. Formula:

Selling price per unit x output level (number of sales)

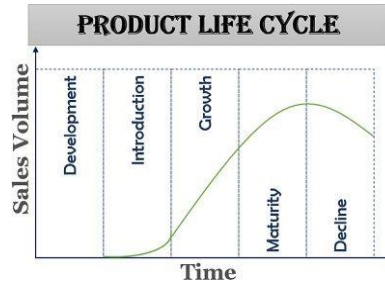
Variable Costs – Costs that change depending on how many products a business makes/sells (vary directly with (and dependant on) the level of output). For example: raw materials, components, stock, packaging

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Topic: RO64 03 – Understand product development

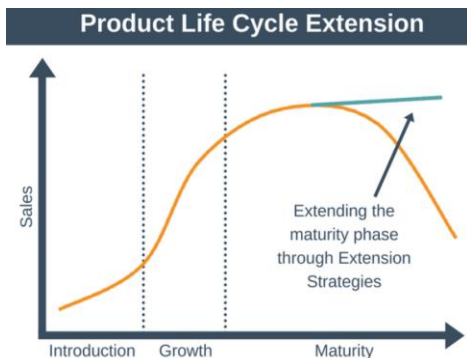
The product lifecycle stages, i.e.

- Development
- Introduction
- Growth
- Maturity
- Decline



Extension strategies for products in the product lifecycle and the appropriateness of each, i.e.

- Advertising
- Price changes
- Adding value (e.g. improving the specification of an existing product)
- Exploration of new markets (e.g. new geographic market, new target markets)
- New packaging



Product Differentiation, i.e.

- Establishing a strong brand image for goods or services
- Design mix model - i.e. the variables that contribute to successful product design - **function, cost and appearance**
- Identifying a clear unique selling point (USP)
- Offering improved: - Location - Features - Functions - Design - Appearance - Selling price

The impact of external factors on product development (PESTLE) i.e.

- Technological developments (e.g. developments in technology that affect production capabilities and consumer preferences)
- Economic issues (i.e. Business Cycle of recession, growth, boom, decline and their effects)
- Legal issues (i.e. copyright and patent, product safety standards)

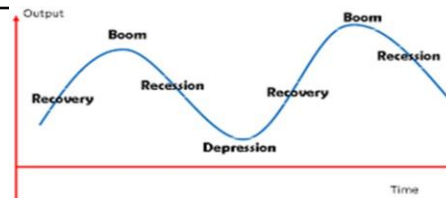
Business Cycle

Recession: this is a economic issue. Less people are in work so they have less spending power so sales and profits are likely to fall

Recovery: if economy is growing a business will make more sales

Boom: during a boom, there are lots of jobs and people have money to spend economy is doing well

Depression: this follows a boom, less people are employed so businesses can struggle to make sales



Keywords:

Business Cycle – Recession, Recovery, Boom, Depression

Extension Strategies - Method used to extend a product's lifecycle and is used to avoid products going into decline (New packaging, New target market of customers, Improving the product, price changes, advertising, selling into new markets)

External Factors (PESTLE) - these are things outside of the business that they can't control. Product development can be changed based on these factors:

- **Technological issues** (ew technology can be made quicker or with better quality so if the business doesn't invest in it then they may lose out to competitors)

- **Legal issues** (Changes in legal legislation impacting on product design or development, advertising standards, copyright laws, patents and product safety etc)

- **Economic issues** (relates to the economy; money, jobs, spending power and tax which link closely to the business cycle)

Product Differentiation - how a product is different or stands out from others in the market. Businesses identify a USP (unique selling point) for products, it's something unique about the product that makes it stand out

Product Lifecycle - shows the various stages a product will go through in its life. It has 5 stages: Development, Introduction, Growth, Maturity, Decline

- **Introduction:** The stage where product is launched, if popular sales increase

- **Development:** The stage before a product launches. It's being designed and tested and market research is taking place

- **Growth:** stage where product's sales increase rapidly more people try it and if popular there are repeat sales

- **Maturity:** The stage where sales slow down and competitors start releasing rival products too, no new sales are made

- **Decline:** The stage where sales rapidly decrease, if they continue to decline the product is withdrawn from sales

Enterprise & Marketing

Topic: RO64 04 – Understand how to attract and retain customers

Factors to consider when pricing a product to attract and retain customers, i.e.

- Income levels of target customers
- Price of competitor products
- Cost of production

Pricing strategies and the appropriateness of each, i.e.

- **Competitive pricing** - Businesses look at what competitors charge and price similarly or lower to gain advantage
- **Psychological pricing** - Business use prices like £9.99 instead of £10.00 to make products appear cheaper and a bargain to the customer
- **Price skimming** - Used for new product launches. First charged at a high price because of the demand, then price is lowered later. This strategy is used for new technology
- **Price penetration** - Used for new products when entering a crowded market where other popular products exist. First pricing is low to encourage customer loyalty then increase the pricing later

Types of advertising methods used to attract and retain customers and the appropriateness of each, i.e.

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

Sales promotion techniques used to attract and retain customers and the appropriateness of each, i.e.

- Discounts
- Competitions
- Buy one get one free (BOGOF)
- Point of sale advertising
- Free gifts/product trials
- Loyalty schemes

How customer service is used to attract and retain customers, i.e.

- Product knowledge
- Customer engagement (e.g. presentation, communication skills)
- After sales service

Keywords:

Advertising Methods – They're used to attract new customers and keep existing customers. Example methods:

- **Leaflets** - Pro: they cheap
Con: they're outdated, not people look at them
- **Social media** - Pro: likely to reach younger audiences
Con: less likely to reach older audiences
- **Websites:** Pro: can reach a global and interest specific audience
Con: Lots of clutter and competition and not localised
- **Newspapers:** Pro: can reach a large number of people
Con: younger people are less likely to read it
- **Magazines** - Pro: easy to reach target market as magazines are aimed at specific groups of people
Con: people reached may be limited as less people read physical magazines
- **Radio** - Pro: can reach a large number of people
Con: the most expensive

Customer Service - How the business treats its customers (it's easier and cheaper for a business to retain existing customers rather than attract new customers)

Pricing Strategies - Businesses need to consider a range of factors when choosing price such as the income of target customers, prices competitors charge and the cost of production:

- Competitive Pricing
- Penetration Pricing
- Price Skimming
- Psychological Pricing

Sales Promotion Techniques -- used to attract and retain customers (businesses have to use the appropriate technique based on their target market and advertising methods). Example techniques:

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

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Topic: RO64 05 – Understand factors for consideration when starting up a business

Appropriate forms of ownership for business start-ups, i.e.

- Sole trader
- Partnership, including limited liability partnerships
- Franchise
- Features of each form of ownership, i.e. - Owners - Basic legal requirements to start the business (e.g. business registration, HMRC) - Liability, i.e. limited & unlimited - Responsibility for decision making - Distribution of profit to the owners

Source(s) of capital for business start-ups, i.e.

- own savings
- friends and family
- loans
- crowdfunding
- small business grants
- business angels

The importance of a business plan, i.e.

- Why a business plan is needed, i.e. - to clarify a business idea to others (e.g. to secure funding) - to measure progress towards goals (e.g. timescales, sales forecasts) - to help manage cash flow - to help identify potential problems (e.g. financial shortages)
- What the business plan should detail, i.e. - business objectives - business strategies - sales plan - marketing plan - financial forecasts

Keywords:

Sole Trader - A business owned by one person

Advantages - easy to set up

Disadvantages- lot of responsibility + limited holidays

Partnership – A business made up of 2 or more people

Advantages- owners may bring different skills to business

Disadvantages- unlimited liability for all partners

LTD Company - Shareholders' liability is **limited** to the capital (Money)they originally invested. If such a **company** becomes insolvent, the shareholders' personal assets remain protected.

PLC Company - A **company** which has shares that can be purchased by the public (Floated on stock exchange)

Franchise - a business that sells the rights to its name so they can trade under the same name and format (McDonalds, KFC)

Advantages- less risk because business is already established

Disadvantages- franchisees have less control

Franchisee - A franchisee is a small business owner who operates a franchise.

Limited Liability - Stockholders cannot lose more than the amount they have paid for a corporation's stock. Limited liability protects stockholders from having to pay a corporation's debts in bankruptcy.

Unlimited liability - The owner is personally and fully responsible for all losses and debts of the business

Sources of capital - The sources from which businesses, whether private, corporate, or state-owned, obtain their capital (Money... loans, investment or otherwise)

Savings – Savings as a source of capital means that the company is not in debt with repayments to be made but risky for the owners

Friends & Family – As with savings, capital can be loaned or invested for a share of the business by friends and family

Loans – Can be used to secure larger amounts of capital and repaid monthly over a set period to time with interest added (3-5 years or longer)

Crowdfunding - Online, large amounts of people giving small amounts of money. business offer in return e.g discount.

Advantage - no interest payable

Disadvantage- can take a long time to gather amount

Business Grant - Government/ council offer people money or reduced fees to get business started.

Business Angels - Wealthy people who give money to new ventures as a return for a stake in the business

Advantage- brings expertise and support

Disadvantage- business owners loses proportion/percentage of business to angel.

Shareholders

Business Plan - Written description of the business idea and how it will be carried out, including all major business activities.

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Topic: RO64 06 – Understand different functional activities needed to support a business startup

The purpose of each of the main functional activities that may be needed in a new business, i.e.

- **Human Resources**, i.e. - responsible for all aspects of managing individuals who work within a business
- **Marketing**, i.e. - responsible for identifying the needs and wants of business customers and developing products/services to meet those needs
- **Operations**, i.e. - organising the process that turns inputs into outputs/finished goods that can be sold to customers
- **Finance**, i.e. - managing the financial resources in a small business and reporting on financial performance



The main activities of each functional area, i.e.

- **Human Resources**, i.e. - Recruitment and selection of employees - Training and development of employees - Performance management of employees - Responsibility for health and safety in the workplace - Ensuring compliance with employment legislation
- **Marketing**, i.e. - Market research o i.e. to research the market and find out customer opinions - Developing a marketing mix: Product, Price, Place, Promotion (4Ps)
- **Operations**, i.e. - Production planning - Producing the product or service - Quality control - Stock control - Logistics
- **Finance**, i.e. - Organisation and allocation of financial resources - Financial performance reporting - Monitoring of cash flow

Marketing Mix, i.e.

- **Product** - It is important to understand the problems your product is trying to solve, because without it, you don't have a place in the market, and you certainly can't sell or advertise something that doesn't exist or doesn't have any demand.
- **Price** - The **price of a product should reflect its value to the customer**. This also entails the relative price versus quality level that the product maintains against the competitors
- **Place** - There is a way **how the product will be provided to the customer**. Where your product appears on the Internet is even more important because your reach online can be global whilst as your reach in the physical marketplace is limited by physical space.
- **Promotion** - Promotion refers to the **marketing communication methods used to inform, persuade, and remind the target market of the product or services**, basically any interaction that your company has with the consumer regarding your product. This may include advertising, sales, promotions, special offers, and public relations. Promotion is quite different from marketing, because **promotion is the communication aspect of the entire marketing function**.

Keywords:

Business Cycle – Recession, Recovery, Boom, Depression

Business functions – Key departments within a business that are a requirement for operation:

- **Human Resources**: Responsible for managing individuals who work for the business. Training, health & safety, employment, recruitment and performance
 - **Marketing**: Identifies the needs and wants of the customers and develop the products. Completing market research, developing the marketing mix (4 P's) and understanding the product the business produces as well as satisfying needs and wants of customers
 - **Operations**: Organise and cost how the product will be processed, made and delivered to customers
 - **Finance**: Manage all the finances for the business and record and report on financial importance
- Marketing Mix**: The combination of factors that can be controlled by a company to influence consumers to purchase its products.

