Cambridge National in Enterprise & Marketing

R064 Learning Outcome 1 Knowledge Organiser

What is Market Segmentation?

Market Segmentation is the process of grouping potential customers together based on different factors. It is basically the method used by businesses to identify their target customer/market. Markets can be segmented in different ways and some businesses choose to use more than one characteristic to specifically segment their market.

How can markets be segmented?

✪ **Age** – This is basically how old the customer is. Businesses tend to segment their market into age brackets. Toys, for example, are aimed at younger audiences, potentially between ages 3 and 13.

✪ **Gender** – This is whether the target customers are typically going to be male or female. Make-up, for example, is targeted at females – this doesn't mean that males cannot buy it, it is just who the business is targeting!

✪ **Occupation** – Occupation means the job or career that the people within the target market may have. This could be a specific job, for example Gym equipment being targeted at Personal Trainers, or a more general group of jobs, Office Workers for example.

✪ **Income** – Some businesses segment their market based on how much money their potential customers make. Luxury branded items, for example, will be targeted at customers with more disposable (spare) income.

✪ **Geographic** – This is when businesses segment their market by their location. A local newspaper, for example, will segment their market to include only those in the area in which the newspaper reports.

✪ **Lifestyle** – Businesses could segment their market based on what their customers' lifestyle is like; this is basically their hobbies, their routines and their habits. Some people enjoy going on holiday abroad each year, this is their lifestyle.

What are the benefits of Market Segmentation?

By segmenting their market, businesses are:

- Able to focus on the wants/needs of specific customers and more likely to meet these wants/needs.
- More likely to make sales because they've focused on specific groups of people (if they segment successfully).
- More able to focus their advertising and other marketing at the right groups of customers – if their market is segmented to include female customers, then the business could choose to advertise in magazines aimed at females, for example.
- More able to produce a specific customer profile, which is a portrait of the business's main target customer.

How do customers vary (how are they different)?

Customers are different/vary because of:

- The amount of money they are **able** to spend
- The amount of money they are **willing** to spend (some customers have more money, but may not be willing to spend this money)
- The **quantity** of products/services they require
- The **quality** of products/services they require
- The **location** in which they want/can purchase items
- The time in which they want to/can purchase items.

What Customer Feedback Techniques are available for business start-ups?

Customer Feedback Techniques are the methods a business uses to allow customers to tell them what they think about their products or services and can include:

- Social Media / Online Communities
- Websites with reviews
- Online surveys
- Customer comment cards
- Comments made to staff members
- Telephone/email surveys
- Email contact forms

Why are Customer Feedback Techniques useful for new business start-ups?

If things aren't going well for a business, customer feedback will give them the reasons why. Taking action could improve sales and help businesses meet customer wants/needs better. Customer feedback also makes people/customers feel they are being listened to.

What is Market Research?

Market Research is the process of finding out what customers want and what they need. Businesses typically carry out Market Research before developing a new product as well as during the testing of the product to get the opinions of their potential customers.

What is the purpose of Market Research?

The purpose of Market Research is to find out what customers want and need – this helps businesses develop products that are more likely to be successful. Research also helps understand customers' tastes and opinions and can change the design or specification of products. Finally, Market Research can also be used to gauge what products are already on the market and what competitors are doing.

What is Primary (field) Market Research?

Primary Research, or Field Research, is when businesses gather their own data and information. This can be done through surveys, questionnaires, focus groups, observations, consumer trials and 'taste tests'. The data gathered is unique to the business and does not already exist.

What are the benefits of Primary (field) Research?

Carrying out Primary Research means that the results are exactly what the business wants to find out, because this research has been tailor made for their own specific needs. Researchers can include everything the business wants to find out from their potential customers.

What are the drawbacks of Primary (field) Research?

Primary Research is usually more expensive to carry out than Secondary Research because the business is creating and analysing everything from scratch. This also means that Primary Research is more time consuming to carry out.

What is Secondary (desk) Market Research?

Secondary Research, sometimes called Desk Research, is when the business uses data or information that already exists. This is not tailor made for the business. Methods of Secondary Research include Internet research, books, newspapers and data already collected by competitors, the Government or other sources of statistics.

What are the benefits of Secondary (desk) Market Research?

Secondary Research is quicker to complete, because the data has already been collected and, in some cases, analysed.
Secondary Research is also cheaper to carry out – looking in newspapers for competitor research is clearly cheaper than preparing, carrying out and analysing a questionnaire, for example.

What are the drawbacks of Secondary (desk) Market Research?

The data that is used when completing Secondary Research is not unique and not specific to the business's needs, unlike when Primary Research is carried out. Secondary Research doesn't allow businesses to ask further questions to those that took part in the research either.

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Forms of Ownership for Business Start-ups…

Sole Trader

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

✪ **Legal Requirements to Start**: Register as self-employed with HMRC; (HMRC is the Government department in charge of collecting tax).

✪ **Liability**: Unlimited Liability – the debts are the responsibility of the owner (disadvantage).

✪ **Decision Making**: The owner is responsible for all the business's decisions (advantage).

✪ **Distribution of Profits:** The owner chooses what to do with any profits made (advantage).

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 operate.

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

✪ **Decision Making**: Decision making is shared between partners; this is usually included in the Deed of Partnership. This can be a disadvantage if owners fall out over decisions.

✪ **Distribution of Profits:** % share will be agreed within the Deed of Partnership (shared profit is a disadvantage of this type of ownership).

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. They only stand to lose what they have invested if the business gets into financial difficulty (an advantage of this type of ownership).

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

✪ **Distribution of Profits**: Again, this will be in the LLP Agreement.

What is liability (in terms of Business Ownership)?

Liability means responsibility and it refers to whether owners will be responsible for the debt of a business, should it get into financial difficulty.

Limited Liability…

If an owner has Limited Liability, they will only lose what they have invested in a business. Shareholders in companies have limited liability – if they invested £500, and the business failed and owed money, they would only lose their £500 – they wouldn't have to cover any more of the debt, even if the business owned millions.

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. This means that if their business fails and owes people money, they will have to cover this debt, even if it means losing their personal possessions.

What is a franchise?

A franchise is when someone buys the rights to an existing business's name to run as their own business. Basically, they're setting up their own business but using the name and ideas of an existing business.

Benefits of owning a franchise…

The franchisee (who buys the franchise) will benefit from guidance and help from the franchisor (who sells the rights to their business name). The business idea is already a success, so they could be more likely to succeed than if setting up on their own. They will also benefit from any advertising the franchisor does.

Drawbacks of owning a franchise…

Franchisees have to pay the franchisor for the rights to their name – this is more expensive than setting up a new business. Franchisees must also pay royalties to the franchisor on a regular basis. It is also unlikely the franchisee can make changes to the business format.

What is Capital?

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

Sources of Capital…

✪ **Own Savings** – This is the owners' own money. This method doesn't involve interest but are limited by how much savings they have.

✪ **Friends & Family** – Borrowing from friends or family may not include interest or paperwork but can lead to friction if not paid back.

✪ **Loans** – Loans from banks or other organisations can help raise capital quickly but will have interest added to the amount paid back.

✪ **Crowdfunding** – This is where lots of a people (sponsors) pledge small amounts of money, usually online. This can be slow to raise the amount of capital needed but doesn't involve interest payments.

✪ **Small Business Grant** – Sometimes Governments give grants to encourage businesses to set up. Grants often involve no interest payments but strict criteria needs to be met and funds are limited.

✪ **Business Angels** – Investors on the TV show 'Dragons Den' would be considered Business Angels. They invest in a business idea in exchange for a share of profits and/or part ownership of the business.

What is a Business Plan?

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

What should a Business Plan contain?

- Business Aims and Objectives (what it wants to achieve/when)
- Business Strategies
- Business Operations (how will the business be run on a daily basis. Who owns the business? Who will make decisions?)
- Sales Plan
- Marketing Plan (marketing, promotions and advertising?)
- Financial Forecasts (cash flow forecasts – how much money is predicted to come in and go out each month? How much profit does the business predict it will make in the first year/over a longer period?)

Why is it important for new start-ups to have a Business Plan?

New businesses can be difficult to set up and, unfortunately, most will fail. Having a Business Plan *should* reduce the risk of failure, especially if the plan is detailed and realistic, as all eventualities will be planned for. A Business Plan is also used to share the business's ideas with third parties – it is unlikely, for example, that a bank will lend money to a new start-up without a detailed plan that includes financial forecasts.

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What are Costs?
Costs are the things businesses have to pay for in order to produce a product or provide a service.

What are Fixed Costs?
Fixed costs are things a business pays for that do not change depending on the amount of a product a business makes – so these costs stay the same no matter how many products a business produces.

Examples of Fixed Costs for a Cake Shop…
Rent for the shop would be a fixed cost because the cost will stay the same no matter how many cupcakes are produced and sold. The shop's insurance, staff wages and phone bill will also be examples of fixed costs.

What are 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.

Examples of Variable Costs for a Cake Shop…
The ingredients used in the cakes would be an example of a Variable Cost because this cost will increase if more cakes are made. The packaging for the cakes will also be a variable cost, if more cakes are made and sold then more packaging will be required.

How are Total Costs calculated?
Total cost is just the fixed costs plus the variable costs. You will, however, need to account for the number of products made when including variable costs.

For example, if the shop's fixed costs are £1000 and their variable costs are £0.20 per cupcake, their total costs when they produce 500 cupcakes will be:

Fixed Costs + (Variable Cost Per Unit x Units Produced)

£1000 + (£0.20 x 500)

£1000 + £100 = **£1100 Total Costs**

How to calculate Total Costs for 400 cupcakes when Fixed Costs are £2000 and Variable Costs are £0.45 per unit…

£2000 + (£0.45 x 400)
£2000 + £180 = **£2180 Total Costs**

What is Revenue?
Revenue is the money generated from selling products or services. **It is not profit**, but the money coming into a business from sales.

How is Total Revenue calculated?
Total Revenue is calculated by:

Selling Price x Number of Sales

What is 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.

How is Total Profit calculated?
Total Profit is calculated by:

Total Revenue – Total Costs

What is Profit per Unit? How is it calculated?
Profit per Unit is the amount of profit a business makes on just one item sold.

Profit per Unit is calculated by:

Selling Price per Unit – Total Costs per Unit

Example calculations…

Selling Price = £1.20 per cake
Fixed Costs = £350
Variable Costs = £0.20 per cake

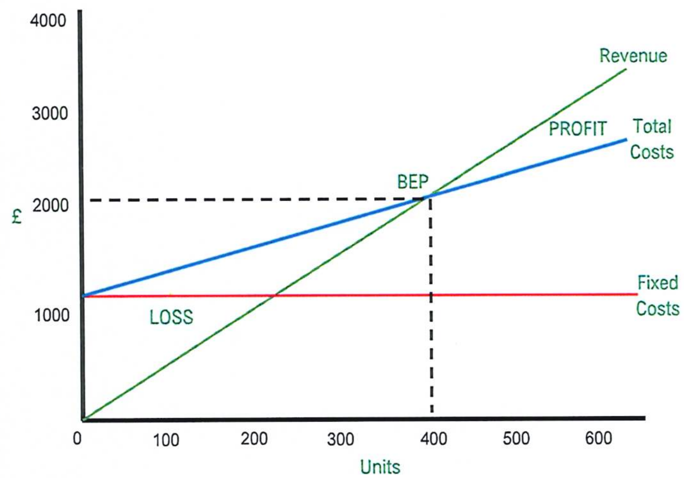
- Total Costs for 500 cakes = 350 + (0.20 x 500) = £450
- Revenue for 500 cakes = 500 x 1.20 = £600
- Profit per Unit = £1.20 – (450 ÷ 500) = £0.30

What is 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. The number of products that must be produced/sold to reach this point is called the Break-even Point.

How is Break-even calculated?
The formula for Break-even is:

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

A labelled Break-even graph…



This business's Break-even Point is 400 Units.

Why is Break-even information useful for a business?
Businesses who calculate their Break-even point know what output they need in order to be profitable; so, they know how many products to produce or can generate a sales target in order for them to make a profit.

What does increasing selling prices do to the Break-even Point?
Increasing selling prices will lower a business's Break-even Point, they will need to produce/sell less in order to Break-even.

What impact does increased costs have on the Break-even Point?
An increase in either Fixed or Variable Costs (or both) will result in a higher Break-even Point for a business; they will need to produce/sell more in order to Break-even.

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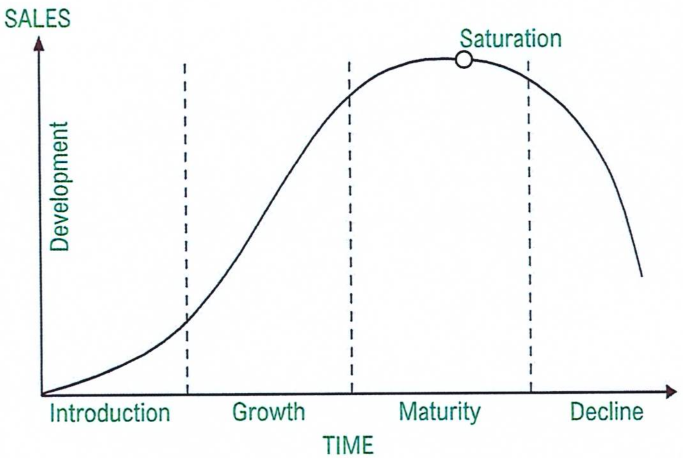
What is the Product Lifecycle?

All products have a life span – this is short for some products or, in the cases of popular products, can be quite long. The Product Lifecycle is a set of stages that a product will go through in its lifetime. It is important to note that not all products go through all stages of the lifecycle.

The Product Lifecycle…



The stages of the Product Lifecycle…

✪ **Development** – This is the stage before the product is released. At this stage, the business will be designing and testing the product as well as completing their market research.

✪ **Introduction** – At this stage, the product is launched onto the market. Businesses might be advertising the new product a lot at this stage to increase awareness and might include introductory offers. Sales will increase steadily in the introduction stage (if successful).

✪ **Growth** – If the launch of the product is a success, it will enter the growth stage (remember not all products go through all stages of the lifecycle, some may decline and never grow). At the growth stage, sales of the product will increase rapidly.

✪ **Maturity** – At this stage, most customers have tried or bought the product. New competitors might be on the scene. Sales are at their highest, but the rate of sales growth will slow down.

✪ **Decline** – In this final stage, sales decline. If sales decline continues then the product will be withdrawn from the market. If businesses are aware of the Product Lifecycle though, they will be able to extend the life of a product before it enters the decline stage.

What is an Extension Strategy?

An Extension Strategy is the name given to the action a business takes when it identifies a product is close to entering the decline stage of the Product Lifecycle. These actions aim to extend the life of a product, by keeping the product within the maturity stage, and should improve sales.

What Extension Strategies can businesses use?

Businesses could **advertise** their product to remind customers that it exists and to encourage them to purchase it. The **price** of the product could be **reduced,** or the product could be **updated** to encourage new sales. Businesses might choose to explore **other markets** – like targeting a **different audience** or selling in another country, this would expose the product to new customers. The **packaging** of the product could be updated to get customers' attention.

What is Product Differentiation?

As the name suggests, Product Differentiation refers to what is DIFFERENT or what STANDS OUT about the product or service a business is launching. Businesses usually identify what is different about their product in the development stage of the product lifecycle.

How can Product Differentiation be achieved?

- Businesses should try to build a strong brand image for their goods or services.
- Businesses should focus on the **function**, **cost** and **appearance** of their products (these are variables of the Design Mix Model).

To stand out, business could offer improved/better:

- Design mix (see above)
- Location
- Product Features
- Product Functions
- Better services (delivery etc.)
- After sales services (extended guarantees etc.)
- Design/Appearance of their products

…or they could identify a product's **USP**

Differentiation is about the **product** itself, not the price etc.

What is a USP?

USP stands for **Unique Selling Point**.

This is a specific thing that a business identifies about their product or service that is different (unique). Businesses identify a USP for their products or services to help them DIFFERENTIATE from others on the market.

How can identifying a USP for a product help sales?

If a business identifies a USP for a product or service, they can use this within their advertising. If the market already has existing products or services being sold, having a USP will help a new product stand out and will give customers a reason to change their habits and purchase the new product.

What are the three categories of External Factors that could affect Product Development?

☆ **Technological Developments** – technology is changing and updating at a fast pace. Businesses must keep up to date with these developments or they'll be left behind by competitors. Technology could speed up the manufacturing of products, speed up the design process for new products or impact on customers' preferences.

☆ **Economic issues** – the state of the country's economy can have an impact on whether businesses are likely to develop new products or not. In a **recession**, for example, people are generally struggling to make ends meet and businesses will struggle with sales/survival – they're unlikely to invest in new product development.

If there is an economic **boom** then more people are employed and have money to spend; businesses will make more sales but may struggle to keep up with production of existing products to meet increased demand, so they may not be able to focus as much on developing new products.

☆ **Legal Issues** – businesses need to make sure they understand different laws when developing new products and ensure they do not break any of these laws. Laws could have an impact on the way a product is manufactured or could change the designs of some products to ensure they meet **safety standards** within a particular country. Businesses must ensure they do not break **Copyright** law; so they can't copy other people's work that already exists. They must also ensure they do not copy anyone else's product ideas that are covered by a **Patent** (the business might choose to patent their new ideas to stop others copying them too). Meeting legal obligations could cost the business more to produce a product but will ensure the business is less likely to break laws and therefore should avoid having legal cases brought against them.

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What factors do businesses consider when setting a price for a new product?

- ✪ Income levels of target customers (how much they're able to pay)
- ✪ How much target customers are willing to pay for products
- ✪ The prices competitors are charging for similar products
- ✪ The amount products cost to produce

Why is it important for businesses to consider these factors before setting a price?

If businesses didn't consider what customers are able/willing to spend, then the price set could be too high – this would mean the business loses out on sales. If the product was priced a lot higher than that of the business's competitors, then it would struggle to compete. If the cost of production is not considered, businesses could end up selling a product at a loss.

Methods of Advertising to attract and retain customers…

✪ **Leaflets** – these are small handouts given to customers in the street or posted to people (not specifically addressed to anyone). Businesses use these because they're cheap to make and can be kept by customers if needed (so they can be referred to for the business's phone number, for example). They are, however, often thrown away before being looked at.

✪ **Social Media** – websites/apps such as Facebook, Twitter and Instagram. These are used because they're cheap to advertise and accounts are usually free to create. It is possible to target adverts and specific people. Social Media is not, however, guaranteed to be used by all target customers, particularly older age groups.

✪ **Websites** – multiple pages hosted on the Internet. Websites can be accessed by customers around the world at any time of day. They are, however, less effective if not promoted or not kept up to date.

✪ **Newspapers** – these can be either local (in one area) or national (all around the country). Advertising in newspapers can be expensive but can get a large audience. Newspapers are less effective when targeting younger customers though and adverts are easily lost with the amount of information on any single page.

✪ **Magazines** – magazine advertising can also be expensive but often magazines are based on specific topics or aimed at a specific age group/gender, so this means it's easy for a business to target their advertising.

✪ **Radio** – Radio is likely the most expensive method of advertising out of the six methods. Adverts can grab people's attention with sound/music, but customers can't keep any information or might miss parts.

What is a Pricing Strategy?

A pricing strategy is a specific system used to set prices. There are lots of different pricing strategies that businesses can use, and some businesses use more than one on the same product. There are four you need to know for your exam (below). REVISE THEM!

Pricing Strategies…

Competitive Pricing is…

When a business looks at what competitors are charging when considering what price they are going to charge for their products or services. It doesn't necessarily mean they charge a lower price (though they could in order to be competitive).

Psychological Pricing is…

When businesses avoid using round numbers for their prices, 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, is only £1 off, but appears cheaper!

Price Skimming is…

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 as other products are released or the product itself becomes more common.

Price Penetration is…

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 and is used in crowded markets.

Methods of Promotion…

✪ **Discounts** – these are appropriate for all products or services. They help businesses attract customers, who will buy because of a discounted price, and can encourage repeat custom if the price is discounted again at a later date.

✪ **Competitions** – competitions are often used by businesses that advertise on social media. They encourage people to interact with the brand, which can attract new customers.

✪ **Buy one get one free (BOGOF)** – these are suited more to businesses that sell products, rather than services, and to businesses that sell products that people consume (use a lot of) – like groceries. These offers can be expensive for a business as they have to give away an additional product with each sale of a specific product.

✪ **Free gifts/product trials** – where a free gift is given with every purchase or a small 'test' product is offered to encourage customers to try a new product out.

✪ **Point of Sale Advertising** – point of sale refers to the place a product is sold; these are usually adverts within stores or at checkouts.

✪ **Loyalty Schemes** – this promotion method is used for products that people consume a lot of or buy regularly, like coffee. These schemes are mainly used to retain customers, as their loyalty will be rewarded with discounts/freebies.

What is customer service?

Customer service is when a business provides assistance, support or advice to the people that are buying their products or services. Good customer service will mean people are happy to return and can also lead to a good reputation, which can help to attract new customers.

Customer Service Techniques…

✪ **Good Product Knowledge** – customers expect businesses to have staff that know the products they're selling inside out! As more and more people buy online, businesses that offer expert knowledge can compete more with online retailers. This can attract customers.

✪ **Customer Engagement** – this means that the business's employees interact with customers in a polite way and make them feel special. This can help retain customers – if they're happy with the service, they'll likely return.

✪ **After Sales Service** – businesses can offer guarantees on products, maintenance and servicing. All of these additional services will help attract customers but will also mean that customers return to the business.

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What is a Functional Area?

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

Functional Areas / 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.
- The Marketing Mix involves the 4 P's… PRODUCT, PRICE, PLACE and PROMOTION. The marketing function focus on getting this mix right so the product has more chance of success.

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 which will be submitted to HMRC (HMRC is the Government department that deals with tax).
- Reporting on financial performance; if it's a company, these reports will be available for all to see.

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.

Summary of some main activities…

Checking Quality of Products	Operations	Manufacturing Products	Operations
Organising delivery of parts	Operations	Advertising Products	Marketing
Carrying out Market Research	Marketing	Paying employees' wages	Finance
Health and Safety	Human Resources	Posting adverts for a job	Human Resources