**R064**

**Enterprise & Marketing**

***Everything you need to know for your January exam!***

**The need for customer segmentation**

* Customers require different benefits from a product
* Different customers have different budgets
* Different incomes
* Expect different quality of goods
* Want to buy larger amounts
* Want to be able to purchase online or in store

**Types of market segmentation**

* Age
* Occupation
* Income
* Geographic
* Lifestyle
* Gender

**Benefits of marketing segmentation**

* Ensuring customer needs are matched and met
* Increased profit
* Increased customer retention
* Targeted marketing
* Increase in market share

**Purpose of market research**

* Aid decision making (like price, colour)
* Reduce risk
* Understand the market (competitors)
* Promote the organisation
* Gain customers’ views and needs
* Inform product development



**Primary research**

* Questionnaire
* Survey
* Consumer trial
* Observations
* Focus groups

**Benefits of primary research**

* Research can be tailored to your specific product so more relevant
* Results are more likely to be up-to-date
* Results not available to competitors
* Helps make less risky decisions

**Secondary research**

* Internal data
* Books/newspapers
* Trade magazines
* Competitors’ data
* Government publications and statistics
* Mintel reports

**Benefits of secondary research**

* Cost of accessing information usually low
* Relatively quick to obtain

**Customer feedback**

* Customer comment card
* Social media reviews and comments
* Online surveys
* Comments made to staff
* Telephone or email surveys
* Email contact forms

**Costs**

**Variable costs** - costs that changes **with output**

* Ink cartridges for cash till
* Stock
* Packaging like boxes for a shoe shop or carrier bags
* Components like engines for a plane
* Raw materials like milk for a coffee shop

**Fixed costs** - costs that do not vary **with output**

* Insurance for the shop premises
* Loan repayments
* Advertising
* Rent
* Salaries
* Utilities

**Total costs**

Fixed costs + Variable costs

**Revenue**

* Money received by the business
* Selling price x quantity sold

**Break-even point**

* Total revenue = total cost

**Break-even formula**

* Fixed costs/selling price - variable costs

**Break-even**

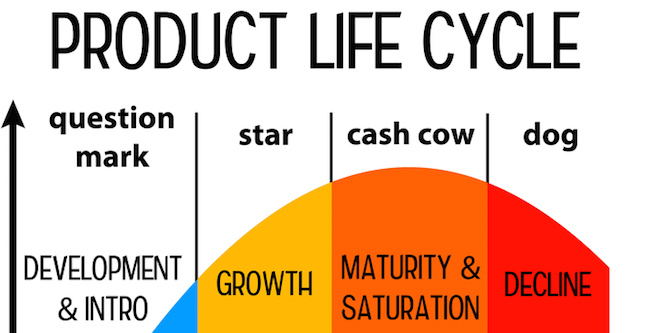
* VC, FC, TC, Revenue lines on graph
* Show how long before start-up becomes profitable
* Help understand the viability of an idea
* Calculate the margin of safety
* Assess the level of risk introducing product
* Assess the impact of changing the price charged

**Profit**

* Revenue per unit - total costs per unit

**Product life cycle**

**Stages**

* Development
* Introduction
* Growth
* Maturity
* Decline

**Development stage**

* No sales, product not on sale
* Loss made due to development costs

**Introduction stage**

* Product is launched
* Sales may be low initially
* Losses likely to continue

**Growth stage**

* Profit margins improve
* Sales grow quickly

**Maturity stage**

* Sales volumes peak
* Profits start to fall as competition increases

**Decline stage**

* Sales drop
* Profit decreases



**Extension strategies**

**Adding value**

* Improve specification of product

**New packaging**

* Redesign video game box

**Expanding into new markets**

* Targeting a new age group
* Targeting a new country

**Price changes**

* Price is often reduced due to increased competition at this stage

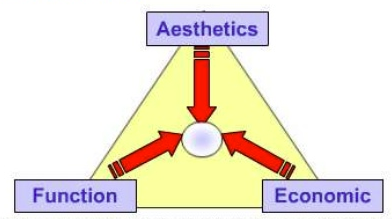
**Advertising**

* New advertising campaigns can attract new customers
* Or remind previous customers
* Or encourage customers to buy more

**Product differentiation**

Moving to an area with no other similar shops

Personalising products



**Design mix model**

* Function
* Cost
* Appearance

**USP**

* Unique selling point
* a feature that makes a product different to its competitors
* Could be location, design, function, appearance, selling price or actual product

**External factors**

**Technological developments**

* Launch of new production machinery
* Digital developments
* Increased automation brings price down



**Economic**

* Recession
* Recover
* Boom
* Slump
* Taxation

**Effects of recession**

* Customers looking for cheaper products
* Interest rates may go down
* Fewer sales so less money for product development

**Legal**

* New product safety standards
* Patenting new products
* Copyright challenge

**Factors affecting pricing**

* Income levels of target customers
* Price of competitor products
* Cost of production
* Local factors (unemployment)



**Pricing strategies**

**Psychological pricing**

* All prices end in 99p
* Perceived in the mind of the customer as cheaper even only by a penny

**Price skimming**

* Setting the price high at first and lowering it over time
* High price indicates superiority or newness
* Helps maximise revenues when first launched
* High price may put some customers off
* Can only be used for a short time

**Penetration pricing**

* Low price to generate sales quickly
* Helps you break into a market
* Low price may encourage customers to try it and switch from competitors
* Can gradually increase prices
* Revenue and profit will be reduced while price is low
* Low price could stimulate a price war
* Customers may return to original brand when price is gradually increased

**Competitive pricing**

* Pricing in line with other businesses



**Advertising methods**

**Leaflets**

* Easy to distribute to lots of people
* Can be kept for reference
* Can be colourful
* Might be perceived as junk mail

**Local newspaper**

* Low cost as only printed once
* Repeat advertising can be more
* Not everyone reads newspapers

**Magazines**

* Country wide
* Detailed information can be given
* Cover a particular interest
* Needs to be prepared well in advance

**Websites**

* Allow small businesses to access large audience

**Radio**

* Growing number of stations
* Can use audience profile to target specific group
* Non-visual



**Social media**

* Low cost to keep details up-to-date

**Sales promotion techniques**

**Point of sale**

* Any advert displayed at the point when a customer will make a purchase (near a till)

**Discounts**

Advantages

* Quick boost to sales
* Encourages customer to try a new product
* May buy in bulk
* May switch brands
* May purchase other items while in store

Disadvantages

* Reduces profit
* Boost to sales only short term
* Customers will expect further deals
* Damages brand image

**Competitions**

* Can be used to encourage purchases

**BOGOF**

* Buy one get one free

**Free gifts**

* Small samples or offer to refund if not liked

**Loyalty schemes**

* Reward schemes like McDonalds coffees



**The importance of customer service**

**Good product knowledge**

* to answer customer queries

**After sales service**

* An extended warranty

**Customer engagement**

* Being polite, good communication, presentation

**Ownership types**

**Limited liability**

* Owners do not risk losing personal possessions to repay debts of business

**Unlimited liability**

* Owners are liable for all debts of the business

**Sole Trader**

* Keep **all** the profit
* Make all decisions
* Easy to set up (few legal requirements)
* Not much capital needed
* Limited liability

**Partnership**

* Between 2 and 20 owners
* Limited liability

**Limited Liability Partnership**

* One partner must have unlimited liability
* Other partners may be sleeping partners



**Franchise**

* When a franchisee pays for the rights to use a known business’s product or service

Advantages

* Customers know brand name and products
* Support and training from franchisor
* Network with other franchisees
* National brand and promotions
* Business concept is proven to be successful

Disadvantages

* **Royalty** payments to the franchisor

**Sources of capital**

**Crowdfunding**

* Individuals contribute finance for equity in the business
* Advertising new business on social media asking for investment

**Business angels**

* Specialist lender who seeks to own part of the business
* Will often provide other expertise

**Bank loan**

* Money borrowed for a fixed period at an agreed rate of interest
* Must make regular payments
* Interest may be high or additional security may be required



**Loan from family member**

*Advantages*

* Informal arrangement
* No forms to fill in
* Interest free
* Reduced pressure to make regular payments

*Disadvantages*

* May not get all money needed
* Could ask for money back at short notice
* Could lead to family disagreements

**Small business grant**

* Funds don’t have to be repaid
* Have to fill in application form

**The importance of a business plan**

* To secure funding
* communicate idea to stakeholders
* measure progress towards goals
* Help manage cash flow
* Help identify potential problems (financial shortages)

**Business plans**

**Sections** included

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

**Functions of functional areas**

**Marketing**

* Finding out customer opinions through market research
* Develop new products to meet customer needs

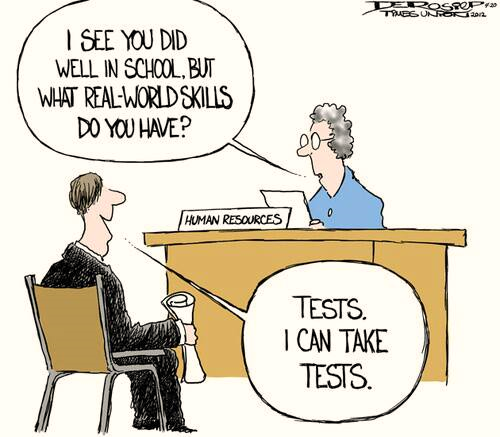
**Finance**

* Monitors cash flow
* Produces budgets
* Prepares forecasts
* Prepare profit and loss account

**Human Resources**

* Responsible for health and safety in the workplace
* Ensure compliance with all employment legislation
* Train and develop employees
* Recruitment and selection
* Performance management of employees

**Operations**

* Production planning
* Producing the product or service
* Quality control
* Stock control
* Logistics

**Activities of functional areas**

**Marketing**

* Set the price of a product
* Design a promotional campaign
* Carry out market research

**Finance**

* Sets the budget for a product
* Pays invoices
* Pays staff wages

**Human Resources**

* Deliver induction training
* Recruit new staff
* Advertise jobs
* Organise interviews
* Carry out health and safety training

**Operations**

* Stock control
* Service machinery on the production line
* Production
* Quality check the product
* Deliver the product