OCR Cambridge National Enterprise and Marketing – Revision Guide

Year 11

LO1 - Market Segmentation

Definition: The process of dividing up potential customers into groups depending on different characteristics.

Why do businesses segment the market? Because customers are different in…

- The Benefits they want
- The Amount they are able to or willing to pay
- Media (e.g. television, newspapers, and magazines) they see
- Time and place that they buy
- Quantities and Qualities they buy

Methods of market segmentation:

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

What are the benefits of market segmentation?

1. Potential for increased profits/profitability
2. Increased customer retention
3. Allows for targeted marketing
4. Potential for an increase in market share

Exam style question: Explain one benefit for a business of segmenting the market (3)

Example answer: One benefit of segmenting the market is that it allows business to gain customer views and understand their needs. This allows managers to make informed decisions about products which will be popular which will then enable them to achieve higher sales.

Keywords

Customer retention: The ability of a business to keep customers and ensure they carry on returning to the business.

Market share: the section of a market controlled by a particular business

LO1 - Market research

Definition: The process of collecting information about customers' needs and wants.

Importance of market research:

- To understand the market and reduce risks
- To aid decision making
- To gain customers' views and understand their needs
- To promote the organisation

Primary Research – collection of new data that doesn't exist - Also called field research

Can be gathered in 4 ways: Questionnaires/surveys, Observations, Focus groups Consumer trials

Advantages	Disadvantages
• Directly relevant to the business • Up-to-date data obtained • Competitors do not have access to the findings	• Time consuming • Often expensive • Results may be misleading if the sample size is too small, questions are unclear or there is interviewer bias

Secondary research - data that already exists - Also called desk research

Internal sources all INSIDE the business: financial statements, company reports, letters.

External sources all OUTSIDE the business: Internet reports, government publications, newspapers

Advantages	Disadvantages
• Often quick and easy to collect • A wide range of secondary data is available, especially on the internet	• Data may not be reliable or up-to-date • May not be totally relevant • May not be in a form that is easily interpreted and analysed

Factual information usually in number form is called **Quantitative data.**

Information about people's opinions and views is known as **Qualitative data**

Exam style question: Analyse the benefits of using questionnaires over focus groups to gather information on a new product

Example answer: A benefit of using a questionnaire is that the results will be quick to gather and analyse, whereas a focus group would need to be chaired and minutes will be wrote which will then be analysed. Another benefit is customers will be more willing to fill out a simple questionnaire instead of having to commit to attending a focus group. A final benefit would be that a focus group would have to be arranged to meet the needs of all the customers, this will be difficult as all the customers will have different availability.

L02 – Costs of Production

Fixed costs - Costs that do not vary with output   Examples: Rent, insurance, advertising, salary

Variable cost - Costs that varies with output   Examples - Raw materials, wages, packaging

Total costs: Total fixed costs + Total Variable costs

Revenue: the amount of money that a business earns from selling products or services

Formula to calculate Revenue: Quantity x Selling price

Example: Company X sold 5000 toy cars.

Each car costs £2 each.

5000 cars (Q) x £2 each (SP)

Therefore its revenue would be £10,000.

Formula to calculate profit or loss REVENUE – TOTAL COSTS = PROFIT/LOSS

Company makes a Profit when revenue is BIGGER total costs

Company makes a Loss when revenue is SMALLER than total costs

Example: If Asda's Revenue was £50,000 and its Total Costs were £35,000, what would its Profit/Loss be?

Revenue – Total Costs = Profit

£50,000(R) - £35,000(TC) = £15,000 = Profit

Example: If Asda's Revenue was £40,000 and its Total Costs were £55,000, what would its Profit/Loss be?

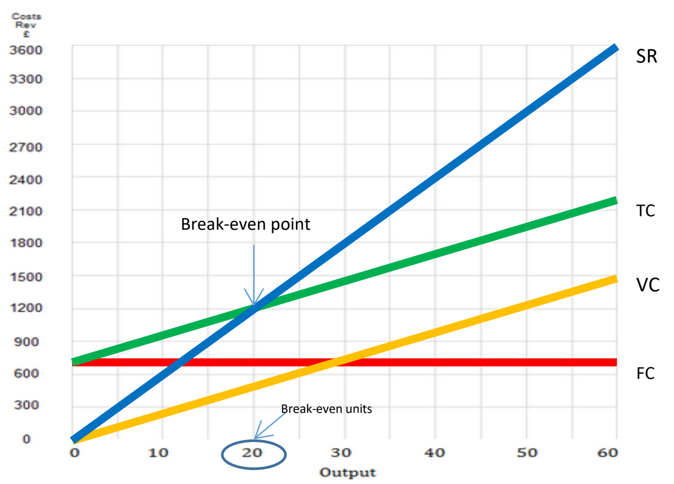
Revenue – Total Costs = Profit

£40,000(R) - £55,000(TC) = £-15,000 = Loss

Break-even

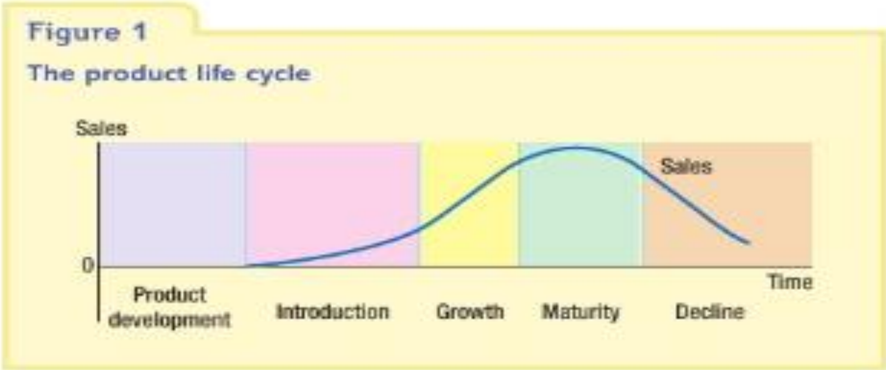
Definition: Breakeven occurs when total costs equal total revenue. At this point the business is not making a profit or a loss.

Formula: $\dfrac{\text{Fixed Costs}}{\text{Selling price per unit – Variable cost per unit}}$



Breakeven point – where the Sales Revenue line crosses the Total Costs Line

LO3 – Understand Product Development



1. Research & development - researching and developing a product before it is made available for sale in the market
2. Introduction – launching the product into the market
3. Growth – when sales are increasing at their fastest rate
4. Maturity – sales are near their highest, but the rate of growth is slowing down, e.g. new competitors in market or saturation
5. Decline – final stage of the cycle, when sales begin to fall

Extension Strategies

As a product reaches the end of the maturity stage of the product lifecycle, a business may try to extend its life by incorporating new extension strategies. There are 5 different strategies we will look at for the exam:

1. **Price changes** – increasing or decreasing the price
2. **Adding value -** Adding new features to an existing product
3. **Exploration of new markets** – selling in a new market
4. **New packaging** – changing the packaging
5. **Advertise more**

Exam style question: State and explain **two** decisions which the product life cycle may help you to make (4)

To launch a promotional/advertising campaign for a product
To start to develop a new product
To withdraw a product from the market
To change the place that a product is available
To add new features to the product
To know when to introduce extension strategies

Example answer: Looking at the product life cycle positioning of a product can help you decide if the price needs to change (1), such as to reduce the price to stimulate more demand for a product in decline (1)

LO3 – Product Differentiation

An important part of development is **product differentiation**. This means **making the product different from its competitors.**

Products can be differentiated in 3 ways which you need to know for your exam**.**

1) **Brand image**
2) **Unique selling point**
3) **The product design mix – design mix model**

1. Brand Image

How to create a strong brand image:

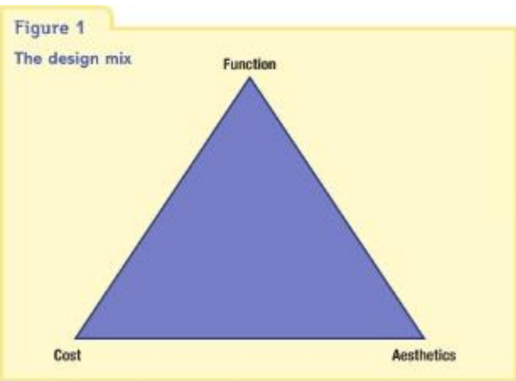
- Sustained and powerful advertising campaigns – John Lewis yearly Christmas adverts
- Sponsorship of sports/music events – Fly Emirates on football shirts
- Having your product available in many markets – Apple IPhone

Benefits of a strong brand image

- Customer recognition
- Easy introduction of new products
- Customer loyalty and shared values

2. USP - A USP is a feature or benefit that separates a product from its competitors

3. The product design mix – design mix model



Function – a product or service must do the job it was designed to do.

Aesthetics – how the product looks, this could include size, appearance, shape, smell, taste, presentation.

Cost – a product or service must be economically viable (profit generating). This might mean looking at the materials and processes that minimise costs. **(Economic manufacture).**

Exam style question: State and explain two methods which you could use to differentiate your mobile phone cases from others available in the market.

Example answer: The phone cases could have clear branding (1) which would be different to other cases on the market (1).
Another way would be to develop a clear USP (1) such as a specific function that no other case on the market has (1).

LO3 – Impact of External Factors

When developing any product, a business must consider those issues that will be outside its control. These fall into three main categories:

- Technological
- Economic
- Legal

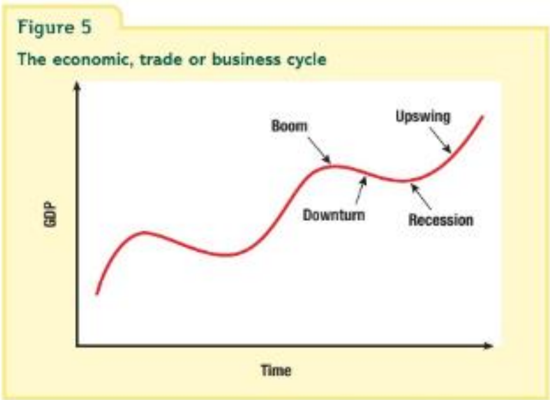
Technological - anything to do with new machines or technology

Technological developments occur all the time, many businesses need to keep up with developments or risk failure and losing out to a competitor.

Businesses need to ensure that their products incorporate the latest features. They can do this by:

- Investing in new machinery
- Training staff
- sell off old stock at a cheaper price as it's out of date and less appealing for customers

Economic - anything to do with the economy/money/spending



Boom: Customer spending is at its highest. Businesses are likely to introduce and sell a wide range of products.

Downturn: Businesses suffer from a decrease in sales. Little or no demand for products and no new products are developed.

Recession or depression: Customers have little money to spend. Cheaper goods are more popular so businesses focus on this.

Growth or upswing: Customers have more money to spend. Businesses start to develop new products again.

Legal Factors – anything to do with laws/legislation

When developing any product, a business must follow the law and ensure products are *safe* and meet the safety standards. This includes packaging, design and insurance of the products. For example there are strict guidelines on the safe production and selling of fireworks.

Copyright and patents

This protects the ownership of original pieces of work, logos, theme songs, and inventions. When developing a new product, a business could apply for a *patent* to ensure their idea isn't copied.

Exam style question: Explain two impacts improved technology may have on a business (4)

Example answer: Improved technology will mean machines will become more productive (1). Therefore, the unit cost of production will fall which will allow the business to charge more competitive prices (1). Technology allows businesses to connect with their customers more easily (1). Therefore, the business can receive instant feedback from them through social media (1).

L04 - Understand how to attract and retain customers

Factors to consider when pricing a product to attract and retain customers
When pricing a product, a business will make an informed decision based on its market research and the factors explained below:

1. **Cost of production**

A business will price its product by working out what it costs to make or buy the product and then add the amount of profit it would like to make.

2. **Income levels of the target customers**

When deciding on price, businesses need to consider the income level of its target customers. For example luxury car makers will charge high prices as their potential customers earn a high salary.

3. **Price of competitor products**

What happens if a similar business selling a similar product lowers their price?

Larger businesses have more bargaining power and can reduce the price for a longer period than smaller businesses. They can achieve lower production costs due to **economies of scale** and therefore can lower their prices.

L04 - Pricing Strategies

Pricing strategy	Target market	Pricing tactic
Competitive pricing	New and existing customers	Setting a price that is similar to that of a competitor – e.g. supermarkets price matching goods sold by competitors
Price skimming	New customers	Introduce the product at a high price then gradually lower it over time – e.g. when Dyson introduced a bag-less cleaner, there was no similar products so they could charge higher prices
Psychological pricing	New and existing customers	Setting a price that appears to be attractive to customers – e.g, selling a holiday for £999 instead of a £1000
Price penetration	New customers	Introducing the product at a lower price to attract customers than increasing it gradually over time

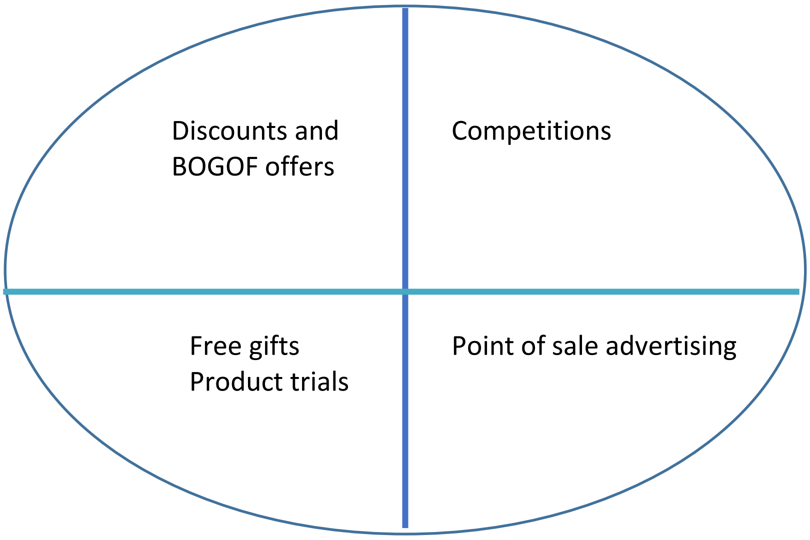
L04 – Advertising methods used to attract and retain customers

Types of advertising methods used to attract and retain customers and their appropriateness

Method	Benefits	Drawbacks
Leaflets – for example for a fast-food or takeaway business	• Low cost • Targets specific demographics • Flexible design	• Easily dismissible • Discarded if poorly designed
Social media – such as Facebook or Twitter	• Low cost • Linked to target market • Can be changed and updated easily • Can use visuals, link to websites/apps	• Not everyone might have access to social media • Not guaranteed to reach target market
Websites - either their own or other websites can be used to advertise their business	• Reach a wide audience • Easy to keep up to date	• Can crash at any time • Can lead to bad publicity • Easy to leave bad feedback
Newspapers – it is estimated that about one quarter of all expenditure on advertising in the UK is on newspaper adverts	• Better targeting • Fast responses • Flexible	• Lots of Competition • Low readership of ads
Magazines – issued on a weekly or monthly basis, magazines are usually kept longer than newspapers	• Long life • Status symbol • Flexible design	• Cost of testing • Deadlines months in advance
Radio - on commercial radio stations such as Capital or Radio Aire	• Targeted to local area • Can only use sound to generate attention/impact • Short and instantaneous	• Higher cost than Social media • Can only use sound to generate attention/impact • Needs to be run consistently to have an effect

L04 Understand how to attract and retain customers

Sales promotion techniques to attract and retain customers



You plan to launch the new range of computer tablet cases with a sales promotion.

Identify **three** sales promotion techniques which you could use.

1 ....

2 ....

3 ....

[3]

Sales promotion techniques include:

- Discounts/money off coupons or vouchers/pricing offers
- Competitions
- Buy one get one free (BOGOF)
- Point of sale advertising
- Free gifts/customer product trials
- Loyalty scheme
- Celebrity endorsements/YouTube vloggers etc.
- Advertising channels – e.g. radio, newspapers, digital media

L05 Understand factors for consideration when starting up a business

Appropriate forms of ownership for business start-ups

There are several different types of business ownership. In this section, we will learn about what these are, the main features, the responsibilities of the owners and how the type of ownership usually relates to the size and scale of the business.

1. Sole trader

Definition: a sole trader is one person who owns and controls their own business but they can employ other people. Some examples include – hairdressers, plumbers or electricians.

Advantages of sole trader	Disadvantages of a sole trader
• Easy to set up – get your idea and you are in business • You are your own boss • You decide what happens to the profit • You make all the decisions	• You have to work long hours • You have to make all the decisions • You have unlimited liability (you must pay for all the debts

2. Partnership

Definition: A Partnership is owned by two or more people who are jointly responsible for the business. Some examples are solicitors, small restaurants, dentists, vets

Advantages of partnership	Disadvantages of a partnership
• Shared responsibility • Shared workload • More capital • Increase of skills	• Share profits • Problems agreeing on work load • Their reputation affects your business • Cannot make a decision without all partners agreeing

Exam style question: Analyse two benefits of setting up your business as a partnership instead of a sole trader (6)

Example answer: Responsibilities in the business can be shared amongst the partners (1). For example, I may be responsible for marketing and the other for finance (1). This is likely to reduce my stress levels (1). Capital can be contributed from each partner (1) which means that there is potentially more capital (1) which may allow the business to grow more quickly (1).

3. Franchise

Definition: A franchise is when one business, the franchisor, gives permission to an entrepreneur, the franchisee, to set up a business using its brand name and its products. Starting up a **franchise** is seen as a less risky option as the **franchisor's** business is already established and successful**.**

The franchisee:

- Pays a start-up cost – this covers equipment and sometimes a premises.
- Pays a royalty each year – this is a percentage of the revenue earned.
- Must follow the rules laid down by the franchisor.

The franchisor:

- Provides equipment and resources
- Provides training

Advantages of franchising (for the franchisee)	Disadvantages of a franchise (for the franchisee)
• Easier to raise finance as the brand is well known • Support and training is offered • Easier to gain customers as brand is already established	• A royalty must be paid every year • Start-up costs and fees are high • Rigid rules to be followed

Exam style question: Analyse one benefit of setting up your business as a franchise (3)

Example answer: This business is already a tried and tested successful franchise (1) which means that it should be easier to obtain finance from a bank or other lender (1). Therefore it would be easier to borrow more money than if I were to set up an independent business from scratch (1).

4. Private Limited Company – LTD

Definition: A limited company is a business that is owned by its shareholders who have bought shares from the company, run by directors and has a separate legal identity from its owner.

Advantages of a limited company

- Each shareholder has limited liability.
- Easier to raise finance.
- It is easier for the business to borrow money.

Disadvantages of a limited company

- Expensive to set up
- Less control over the company
- The company must pay an annual fee and produce yearly documents.

5. Public Limited Company – PLC

Definition: A limited company is a business that is owned by its shareholders who have bought shares from the company, run by directors and has a separate legal identity from its owner

Advantages of a public limited company

- Each shareholder has limited liability.
- Easier to raise finance.
- It is easier for the business to borrow money.

Disadvantages of a public limited company

- Expensive to set up
- Less control over the company
- The company must pay an annual fee and produce yearly documents.

The main difference between a LTD and a PLC is that in a private limited company the shares are not offered for sale to the general public where as in a public limited company they are!

Unlimited Liability

The owners of the business are personally responsible for the debts of that business. This applies to sole traders and partnerships.

Limited Liability

The owners of the business are **NOT** personally responsible for the debts of that business. If the business goes bankrupt the owners are not personally liable.

L05 Understand factors for consideration when starting up a business

Source of Finance	Description
Bank Loan	An amount of money is borrowed from the bank, then repaid (with interest) over a set period of time
Crowdfunding	Groups of investors that join together to offer funding to a business
Small Business Grant	Money given to the business by the government or charity Used to help finance new projects – especially those that create new jobs
Business Angel	Finance invested in small, risky business e.g. new business start-ups by experienced and wealthy entrepreneurs
Owners Savings	Money put into the business by the owner

SOURCE OF FINANCE	ADVANTAGES	DISADVANTAGES
Borrow money from friends / family	• May charge little or no interest • Do not have to provide security	• Could lead to disputes between family members and friends • May not be able to lend large amounts
Own savings	• Does not have to be paid back	• There may be a limit to the amount of money which can be invested
Crowdfunding	• it can be a fast way to raise finance with no upfront fees • can be a valuable form of marketing and result in media attention	• If the target is not reached, all the money will have to be paid back • Someone can steal your idea if it is not protected
Small business grants	• Does not have to be paid back • Do not need to lose control of your business	• there may be strict rules and not every business is eligible
Bank Loans	• the repayments can be spread out over a long period of time • Access to larger amounts of finance	• Must be paid back with interest • Lender may require security for the loan
Business angels	• BA have lots of experience which helps with decision making • Can bring in large amounts of finance • No repayments or interest	• the owners lose a certain percentage of the business

L05 Understand factors for consideration when starting up a business

Importance of a business plan

What should a business plan include?

- A simple description of the business or idea
- Business aims and objectives – the goals the business would like to achieve
- Key business targets – goals that need to be met
- Business strategies – long term plan of action
- Plans and forecasts – demonstrates how the business will operate e.g.

What is a purpose of a business plan?

1. It helps the business to manage its cash flow – how much to spend on, where to spend money on, when to spend money
2. It explains a business idea to others – you can show a business plan to a bank to help get a bank loan
3. It measures progress towards goals – e.g. time scales, sales forecasts, when will we the business get money back
4. It helps to identify potential problems – e.g. any financial shortages

Importance of cash flow

If a business runs out of cash, it will not be able to pay for its workers or stock. If this happens, the business is then classed as insolvent. The owners will either have to raise additional money or close down the business.

To prevent this from happening, a business will carefully monitor its cash flow to ensure it has sufficient money to pay its liabilities. The business will often plan ahead by preparing a cash flow forecast.

L06 Understand different functional activities needed to support a business

All business, whether big or small will have a number of functions they need to carry out to ensure the business runs smoothly. These also link to the aims and objectives of the business and what it wants to achieve.

A functional area is a department that carries out a certain role in a business.

Human Resources

The term "Human Resources" (HR) refers to all the people who work for the business. The Human Resources department is responsible for everything to do with the staff who work there. Main tasks include:

- Recruiting and selecting employees – advertising and interviewing the correct candidate for the job
- Training and developing employees – making sure that all the employees have the skills required to complete the job e.g. induction training
- Health and safety – making sure employees are safe at work. For example – making sure everyone knows how to operate machinery safely or what to do in case there is a fire
- Performance management of employees – review the performance of the employee, whether they are performing to the standards expected

Finance department

This is the functional area that looks after all the money! The main tasks people in the finance department would do include:

- Organising and allocating money – ensures that money is given to other departments so they can carry out their role
- Reports on financial performance - prepares detailed reports assessing how well the business is doing, e.g. breakeven, profit or loss?
- Monitors cash flow – prepares budgets or cash flow forecasts to see how much money is available to the business

Marketing Department

Marketing is involved in getting the product or service noticed by the public. Their aim is to make sure that the customers are aware of their product and what they are trying to achieve. They are responsible for developing the marketing mix. The marketing mix refers to the 4 P's of marketing:

- Price
- Product
- Place
- Promotion

Operations Department

The operations department is responsible for managing production processes. Their main tasks include:

- How to produce products – the steps needed to produce products
- Workout how many products to be produced and when – check sales and stock to see what is popular and what is, for example, Christmas and holidays
- Making sure products are delivered on time – using the right delivery company, sending packages out promptly

L06 Understand different functional activities needed to support a business

Production methods

Production Type	Definition	Examples
Job Production	Production of special "one-off" products made to a specific order.	Handmade jumper Bespoke Jewellery
Batch production	Groups of a particular product made to order, with production of each group passing through each stage of production together	Cars
Mass/flow production	Standardised products made in large quantities, usually by an assembly line	Loaves of bread Tshirts

Production Type	Advantages	Disadvantages
Job Production	Producer meets individual needs Product usually high quality Worker satisfaction is high	Requires investment in skills and training Cost of producing one unit or job is higher
Batch production	Production levels of different products can be altered to meet demand Workers can be put where they have the best skills	High cost of machinery in the short term. Lots of storage space needed for various parts.
Mass/flow production	High number of products can roll off assembly lines at very low cost Productivity is high and therefore, unit costs are low	Very difficult to alter the production process Boredom for workers can lead to mistakes