

## Unit 3.1 - Marketing

### Marketing

- Most businesses benefit from some sort of market research.
- Marketing aims to understand the needs and wants of the consumer.
- Marketing can help inform the development of a product.
- Marketing will help a business to anticipate the needs and wants of a market. This allows it to lead from the front rather than have to chase the leaders. This helps a business to plan.
- Marketing is a management process.
- Market research is the gathering of data from actual and potential customers about current and future products and services. It has three distinct stages.
  1. Designing the research – how will it be collected, in what form and for what purpose.
  2. Undertaking the research – actually going out and collecting the data. It may be done by the company itself or by another company on behalf of the one who needs the data.
  3. Analysing the information – interpreting the data collected into meaningful information that will inform the company about the market and what it thinks of the product or service.
- Marketing and market research helps reduce the risk of failure (assuming it is accurate).
- Data collected may be in two forms – quantitative (used for numerical analysis) and qualitative (people's opinion, judgements and values).
- Surveys are a common way of gathering information and can be done in many forms including postal, telephone and face-to-face.
- Questionnaires are often completed by respondents as part of the survey process.
- Consumer panels and focus groups may be used to gather more detailed information from actual and potential users of a product or service.
- Sampling is a way of asking a representative number of people from your target market (the population).
- Samples may be purely random or they could be as a quota.
- The purpose of market research is to help a business come to a decision.
- Marketing and market research can be costly and time consuming.
- It must have a distinct purpose and the questions asked must be relevant and useful.
- Market research can sometimes stifle 'gut feeling' and opportunities may be missed by companies.

### Product trial and repeat purchase

- A business trials its products in order to hopefully create loyal customers.
- A product trial is where a business gets people to try its product for the first time.
- This should create repeat purchase where customers start buying the product regularly.
- Advertising often helps product trials as customers get to know about the product on offer.
- Various forms of media can be used to advertise the product.
- Often free publicity or public relations is an effective way to get the product noticed. Launch parties are held where journalists are invited to see, feel and try a new product for the first time. They then write about, and report it.
- Internet marketing is becoming more and more common. One form is viral marketing where messages about a product are spread from user to user in messages on sites such as Facebook and Bebo.
- A business may offer free samples to potential customers to get them to try a product for the first time.
- Another strategy is low trial prices (or penetration pricing) where customers will try a product because they have to spend less on it than normal. This could be in the form of a low selling price, reduced price coupons or 2-for-1 offers.
- Trade purchases are as important and low introductory prices may entice wholesalers and retailers to purchase the product for the first time.
- Repeat purchase can be aided through manipulation of the marketing mix (4Ps).
  1. Product – the range over time can be updated or adapted.
  2. Price – special pricing can be used at certain times.
  3. Place – the product can be sold in as many accessible outlets as possible.
  4. Promotion – can be used to remind customers of the product's availability or to encourage sales through promotional activities such as competitions.
- Many strategies for product trial can be used again to ensure repeat purchase.

## Product life cycle

- The Product Life Cycle charts the stages through which a product passes over time. It has six separate stages.
  1. Development
  2. Launch
  3. Growth
  4. Maturity
  5. Saturation
  6. Decline
- During growth sales and profits should be rising.
- Maturity sees a peak in sales and the profit generated can now be used to fund other products.
- Businesses try and maximise the length of the maturity phase by undertaking extension strategies.
- Saturation is where competitors bring out rival products which draw sales away from a company.
- The cash flow during the development and launch phase of a product is likely to be negative as the product needs lots of support.
- During the growth phase the cash flow is likely to be small but positive. In maturity, saturation and decline the cash flow is likely to be positive.
- Product portfolio analysis will help a business answer questions about their current and potential products.  
One key product analysis tool is the Boston Matrix. The Boston Matrix is a measurement tool that allows a business to measure the relevant success of a product in its market according to market share and market growth.  
It has four distinct sections:
  1. Cash Cow (low growth; high share).
  2. Star (high growth; high share).
  3. Problem Children (high growth; low share).
  4. Dog (low growth; low share).

## Branding and differentiation

- Businesses like to have strong brands in their portfolio although not all do have them.
- Branding is one way to differentiate one company from another.
- The opposite of a branded product is a generic one where customers do not see any real difference between the products on offer.
- Modern business has seen the rise of own brands where, for example, supermarkets have successfully developed their own brand of goods.
- Strong branding often leads to successful product trial and repeat purchases.
- Branding can help to develop a company's product mix by enabling them to develop new products using the profits from other successful ones.
- Branding can allow premium pricing to take place.
- Branding also helps build reputation but this reputation can be destroyed if one product fails or ruins the image of the others.
- Market mapping is one way of comparing branded and non-branded products in the same market.
- There are several ways in which companies can differentiate their products in order for them to stand out from the competition.
  1. Design
  2. Formulation
  3. Function
  4. Packaging
  5. Name
- Each of these can give significant competitive advantage and add a unique selling point to a product or company.

## **Building a successful marketing mix**

- Any business idea needs to be developed to maximise its potential.
- The four elements of the marketing mix are Product, Price, Place and Promotion.
- Products within a business portfolio must be constantly checked and, if necessary, updated to ensure they meet the needs and wants of the market.
- Nearly all businesses adapt and change over time.
- Some markets change rapidly (clothing, music, electronics) whilst others are slower to change (basic food items and fuels).
- Individual brands may have different varieties within them (basic, better, best for example).
- Brand names change over time to suit the current market – Jif became Cif to suit the European market.
- Price plays a key role in business success – well-known brands tend to be more expensive whilst non-branded items tend to be cheaper.
- Pricing techniques can enhance a business's reputation and also aid the consumer to purchase more (bulk buying) at certain times (promotional pricing period).
- Strong brands tend to be backed up by heavy promotional campaigns.
- Promotion is targeted at specific segments or target markets.
- Packaging also plays an important part in effective promotion.
- Place is all about making sure you can get the product to the customer when they want it, where they want it and in a reasonable amount of time – it is not simply the location of the shop.
- If the product is not available then the customer cannot buy it.
- Businesses may sell their products directly, through a wholesaler or through the actions of an agent.
- The Internet has changed many of the ways in which we promote and place out products and services.

## **Unit 3.2 – Meeting Customer Needs**

### **Design, research and development**

- One way to make a product stand out is through differentiation.
- Good design is one way to help a product stand out from its rivals.
- The design mix is a combination of three elements:
  1. Function – what the product does and how well it performs.
  2. Cost – the cost of producing the product and how this relates to image and quality.
  3. Appearance – the look, style and aesthetics (appearance) of a product.
- Modern business has seen the rise of OWN BRANDS where, for example, supermarkets have successfully developed their own brand of goods.
- Scientific research can help designers find the best materials for the production of a product.
- Research and development is a key area of many businesses.
- Many firms have their own R+D departments, others outsource this work to other businesses.
- Prototypes are working models of finished possible products.
- Market research does not always give the best information about what a new product should be like. Sometimes a 'hunch' is just as good.

## Managing stock

- Many businesses hold stocks.
- There are three types of stocks.
  1. Raw materials
  2. Part-finished good
  3. Finished goods
- Stock control is the system that manages stock levels in a business.
- The traditional stock method is also called Just In Case.
- Just In Case comprises of maximum and minimum levels of stock and a re-order level. It also has a buffer stock level.
- Buffer stocks are needed to cope with unexpected demand or uncertainty.
- Traditional stock control can be illustrated using a ‘bar gate’ diagram.
- Just In Time is a different method of stock control.
- With JIT the stock is ordered and delivered just as it is needed.
- Relationships between suppliers and firms must be good and many firms have worked on building these relationships to the advantage of all.
- Each firm has its own individual way of controlling stock; no one is the same.
- When considering stock control it is important to think carefully about the type of firm being considered – JIT, for example, is not appropriate for every firm.
- Holding stocks creates costs such as storage, monitoring and insurance.
- It also ties up capital that could be used elsewhere.
- If a good is perishable then holding too much can be very costly and impractical.
- Holding too little can mean not satisfying customer needs on time and damaging reputation.
- Having larger amounts of stock can mean taking advantage of economies of scale through bulk buying.

## Quality

- A good quality product is one which meets the standards set by customers.
- Poor quality products do not meet the standards set by customers.
- Traditional quality control involves an individual, team or department who are responsible for checking the quality of goods and services once they have been made or provided.
- This approach is REACTIVE.
- Faulty goods would be altered, thrown away or sold as ‘seconds’.
- The modern approach is quality assurance.
- Quality is built into every aspect of the production process.
- QA involves all members of the workforce checking their own work for any quality issues.
- Ultimately this should lead to a zero defects practice.
- Customers are assured of the quality of the product.
- This is a PROACTIVE approach.
- Businesses and their workers need to understand the needs and wants of the customer.
- Suppliers need to do the same for their own customers, the businesses
- Kaizen (continuous improvement) is a Japanese quality assurance practice that developed after World War II. To achieve the highest possible quality, continuous improvements are needed.
- Management must implement a suitable and workable system and make sure it is adapted as necessary.
- Effective communication is vital for success.
- National and international organisations award quality standards to companies that achieve high and consistent quality in the workplace. These include the British Standards Institute (BSI), the International Standards Organisation and the government itself.
- Quality has one main meaning in Business Studies – a product or service that meets the minimum acceptable standards required. Standards between similar products change.

## Cost-effective operations and competitiveness

- Many firms aim to raise productivity levels.
- Labour productivity is measured as output per worker per time period.
- Labour productivity can be raised in a number of ways.
  1. Training
  2. Using better equipment
  3. Using efficient working practices
  4. Re-organising production lines and work spaces
  5. Giving people more control over their working lives (maybe by working from home)
- Costs can also be reduced in a number of ways.
  1. Improved purchasing methods
  2. Relocation
  3. Better product design
  4. Cutting overhead costs
- Prices need to remain competitive in order to survive.
- If prices are too high then customers will not buy the goods or services.
- Cutting costs can mean that lower prices can be offered.

## Effective customer service

- Excellent customer service is often the reason why customers keep coming back
- It stems from several key areas.
  1. Meeting the needs of the customer – giving them what they want.
  2. Making sure that quality meets expectations – this differs from product to product and from business to business.
  3. Service that is on time and delivered when expected – there is nothing more frustrating for a customer than not getting what they want when they expected it, from drinks in a bar to CDs from the Internet.
  4. The experience that the customer has in engaging with and using the business and whether that experience meets their needs and expectations.
  5. Innovation to stay ahead of the competition – markets are fluid, the needs and wants change over time. Businesses must keep up with these changes.
  6. Collaboration with other agencies – this can help with finances and ideas.
  7. Spotting problems and reacting to them – if a problem arises then the ability to deal with it quickly is a sign of excellent customer service.
  8. Listening to customers – often they have the best ideas about how to improve things.
  9. Dealing with complaints efficiently – fast action often appeases a customer who has a complaint and can turn a negative situation into a positive one.
  10. Training staff – highly trained staff will be able to do their job to the best of their ability.
  11. Ensuring that the training given has a focus on what customer service is and how important it is to a business.
  12. Going beyond what is expected – sometimes businesses do just this and this can surprise customers in a positive way.
- Poor customer service tends to drive customers away.
- Poor customer service can lead to loss of revenue, profit and the business itself.
- Effective service changes from business to business. What someone expects from a national supermarket is not what is expected from a local corner shop.

## Meeting consumer protection laws

- Consumer laws give a level of rights to the consumer if things go wrong with their products or services.
- Legislation is also an important part of health and safety between companies and customers.
- There are two main types of law that protect the consumer covered in this course – Sale of Goods and Trade Descriptions.
- Sale of Goods is a civil law and leads to compensation.
- Trade Descriptions is a criminal law and leads to fines and prosecution.
- An Act is an Act of Parliament.
- Parliament sits at Westminster.
- Members of Parliament (MPs) create new laws or change existing laws when they pass an Act of Parliament.
- Laws change regularly.
- The Sale of Goods Act was first passed into law in 1979. It has been updated several times since.
- The Trade Descriptions Act was first passed into law in 1968.
- Most replaced in 2008 by the Consumer Protection from Unfair Trading Regulations and is applied across the EU.
- Sale of Goods Act covers three areas.
  1. An item matches its description.
  2. An item is of merchantable quality.
  3. An item is fit for purpose.
- If any of these are not adhered to then the business selling the product to the consumer must then either give a refund, a replacement or a repair.
- Trade Descriptions also covers three areas.
  1. Failing to give important information about a product or service.
  2. Acting aggressively through sales tactics.
  3. Giving false information about a product or service.
- If these are not met then a company can be taken to court, prosecuted and fined.
- Adhering to the laws can be expensive in both time and money for businesses. It is affected in several ways.
  1. It needs to know and understand the law.
  2. It needs to be compliant (carry out the law).
  3. It can cut increase costs of production and so might affect profit.

## Unit 3.3 - Finance

### How to improve cash flow

- Cash flow is the movement of money into and out of a business.
- Do not think of cash flow as being just physical cash – it also includes cheques, automated bank transfers, direct debts and credit card payments.
- Cash inflows include sales, interest paid on savings and investments and revenue from other sources such as rental income of a building or land.
- Cash outflows include such things as payments of raw materials, wages and taxes.
- Controlling the finances of a business is called financial management. Changing cash inflows and outflows is one example of this.
- De-stocking can help the cash flow by gaining extra sales and reducing the levels of finished goods.
- A business can ask its customers to pay quickly, improving the cash inflow or delay its own payments, reducing the cash outflow.
- Loans can be used to improve the cash flow but they have to be paid back with interest.
- Remember that cash flow is not the same as profit. A business could have cash flow problems but still be profitable.

## How to improve profit

- Profit = revenue – costs.
- A firm making a loss will try to adopt strategies to try and get back into profit as soon as possible.
- A firm already making a profit could try and make even more profit.
- Cutting costs is one way of increasing profit.
- Costs that can be cut include material costs, wages, marketing and investment.
- A firm should be careful that cutting costs does not lead to reducing quality (of the product or service).
- Another way of getting into profit is to increase revenue.
- Revenue = Number of products sold x Average price.
- Revenue can be raised in several ways including changing the selling price (depending on the price sensitivity of the product), improving the marketing or making a better product.
- A firm should be careful not to raise the selling price so much that it discourages customers from purchasing.
- In some cases, reducing the price could also lead to an increase in revenue whereas in others, increasing the price might increase revenue.
- Improving a product or bringing out a new one will incur some additional costs, as will marketing.

## Break-even charts and break-even analysis

- Break-even is where revenues just equal costs.
- It allows firms to understand how many products it needs to sell to cover the costs before it moves into profit.
- If a firm sells less than the break-even it will make a loss.
- Total revenue is quantity sold multiplied by average price.
- Total costs equals fixed costs added to variable costs.
- Fixed costs are not dependent or determined by the level of output/sales.
- Variable costs change directly with the level of output.
- Break-even can be expressed through a break even chart which shows total costs and total revenue. The point at which they meet is the break-even point.
- The number of sales above the break-even point is called the margin of safety.
- Changes in price and/or cost affect the break-even point. If costs rise the break-even point rises. If prices rise then the break-even point falls and vice versa.
- The formula for calculating break-even is:  
Fixed costs / selling price – variable cost per unit.
- The selling price – variable cost per unit is also called ‘Contribution’.
- Break-even analysis helps a firm: understand the past; achieve future targets; launch a new product; start a new business; and write an effective business plan.
- Break-even does not tell a firm how many products they will sell only how many they need to sell to cover the costs.

## Financing growth

- There are two ways to finance a business - internal and external.
- Internal sources of finance come from within the business and include retained profit and sale of assets.
- External sources of finance come from outside the business and include loans, share capital and trade credit.
- An overdraft is a short-term loan where a firm is allowed to draw more money from its current account than it has. There is often an agreed overdraft limit that the bank allows a firm to go up to.
- Different types of finance are best in different circumstances. Issues to think about are: how long is the money needed for; what is it needed for; what is the cost of borrowing it; what are the risks involved in borrowing it; and the availability of finance.
- The size of the firm often determines the types of finance available with larger companies having more choice.
- Share issue is a long and complicated process and new firms rarely do this to raise finance.
- Share issue tends to be for relatively large and expensive projects.

## Unit 3.4 – People in Business

### Organisational structure

- Whoever has the right to make decisions and take command has the ‘authority’.
- Workers like to know several things: what they should be doing; who is in charge of them; whether they are in charge of others; and how they link to the rest of the business. This is the organisation of a business.
- The organisation can be shown on an organisational chart.
- The hierarchy shows the different levels of authority in a firm.
- There are often more people in each layer the further down you go, this gives it a pyramid shape.
- The chain of command can be seen in the hierarchical structure.
- People working under someone higher up in the chain are known as subordinates.
- The longer the chain of command the more problems appear, such as slower or distorted communications.
- One way to get rid of some levels is to remove some managers as part of a restructuring or change job roles – this is known as delayering.
- By getting rid of management roles the responsibilities may be passed onto workers through empowerment. This can be highly motivating.
- Delayering can improve productivity, this can lead to the need for fewer workers and downsizing.
- The number of people that a worker directly controls is called a span of control.
- Increased delegation means a larger span of control.
- Decisions made at head office and then passed down make a company a centralised one.
- Decentralisation means decisions are made at a more local level or made in smaller parts of the business.
- Decentralised decisions are made closer to the customers, suppliers and the market.

### Motivation theory

- Motivation has many benefits for a business.
  1. Increased motivation in a workforce leads to more committed workers.
  2. The quality of the work is likely to improve.
  3. Workers tend to be more flexible.
  4. Output levels improve.
- Demotivated workers often have the opposite effects.
- Abraham Maslow developed the theory known as the hierarchy of needs which describes five specific needs – physiological needs, safety needs, love and belonging needs, self-esteem needs, and self-actualisation needs.
- According to his theory once one need was satisfied it ceases to act as a motivator.
- A business can help a worker achieve these needs through various methods such as pay and opportunity.
- Sometimes one factor can help with more than one need, such as pay helping the physiological needs and the self-esteem needs.
- Motivation also comes from within a person as well as being helped by the workplace.
- Managers may not fully appreciate that motivation is not just linked to money but also to how the worker feels about their job, friendships at work and how much control people have over their working life.
- Motivation is the desire to complete a task.

## Communication

- There are two parties in any message – the sender and the receiver.
- Feedback from the receipt of the message is often very important in ensuring that communication has been successful.
- Internal communications take place within a business.
- External communications take place between the business and an outside agency.
- Information passes along channels of communication.
- Channels which are recognised and approved by a business and employee representatives are known as formal communication channels.
- Formal channels can be both horizontal and vertical.
- Messages may also be passed through channels that are not formally recognised and are known as informal channels of communication.
- Informal communication is sometimes referred to as grapevine communication.
- Informal methods include gossip and chat.
- Channels of communication must be set out by a company to avoid messages going to the wrong people.
- The fewer levels that a message passes through the less chance of it becoming distorted or misunderstood.
- Messages must: be accurate; be sent to the right people; be sent at the right time; and be sent using the right method.
- Communication breaks down as it hits a barrier such as: poor explanation; inability to understand the message; the receiver not listening to all or part of the message; problems with the equipment being used.
- The amount of information can be too little (insufficient) or too much (excessive).
- Sometimes messages say different things about the same topic and become contradictory.
- Poor communication can lead: to dissatisfied customers; demotivated staff; supplier problems; or misunderstandings.
- Poor communication can often result in the collapse of a business.

## Remuneration

- Payment systems are highly varied.
- Time-based systems are often used for manual workers and are based on the amount of hours they work, including overtime.
- They receive a 'wage'.
- Salaries are yearly amounts which are paid monthly, often used with non-manual workers.
- Some staff are paid according to output or how much they produce – this is a results-based system.
- Results-based systems include piece rate, commission and bonuses.
- Temporary workers have no long term contract.
- Freelancers work for a business as a supplier of labour and skills.
- Workers may be full time or part time.
- Payments that do not involve money are known as fringe benefits, such as subsidised or free meals, staff accommodation or health care.
- Which payment system to use depends on many factors such as: the possibility of use; tradition of the company; tax and other associated employment costs; and levels of motivation that are desired.
- Some workers doing the same job may be paid using a variety of methods.
- Some workers may be paid in several different ways, such as receiving a basic salary, being paid commission on any sales and also receiving the use of a company car.

## Unit 3.5 – Wider Areas Affecting Business

### Ethics in business

- Businesses must make ethical choices.
- Ethics is becoming a key part of business in today's society.
- Ethics affects a wide range of business areas such as production, suppliers, customers, competitors, workers, the local community, products and the environment.
- There are trade-offs to consider when making ethical decisions with the sacrifice of some profit often the main one.
- Pressure groups are organisations that support causes.
- They campaign to try and change the actions of businesses and governments in order to benefit their particular cause.
- Businesses can act in several ways when it comes to pressure groups. They can ignore them, work against them or work with them.
- The Fairtrade Foundation is a non-profit organisation that promotes the use of products that meet internationally agreed fair trade standards.
- Sometimes it is easy to assume that firms have no ethical standards or are ambassadors for ethical change. Most lie somewhere between the two extremes.
- Some firms may promote an ethical stance in order to improve their image – a public relations (PR) exercise - it may be a question of perspectives.

### Environmental issues

- Businesses have an effect on the environment in some way, shape or form.
- The supply chain are the processes that are involved in the route taken by a product from the raw materials needed to create it right through to the final customer.
- Impacts can be short or long term.
- Short-term effects occur on a day-to-day basis such as traffic congestion and pollution of the air or water.
- Long-term effects are things that need addressing now otherwise they will cause significant damage in the future such as climate change and resource depletion.
- Non-renewable resources are those that cannot be replaced once used such as oil, gas and coal.
- Renewable resources are those in abundance and can be replaced or reused easily, such as wind or tidal power.
- Many businesses are aware of their impacts and are trying to change to reduce these impacts.
- Governments can pass laws to help improve the situation.
- The three largest sources of waste are the construction industry, agriculture and mining and quarrying.
- Recycling is a positive step in reducing the impact on the environment but can be expensive and time consuming.
- Customers are putting pressure on businesses to become more environmentally aware.
- Environmental issues can be seen as a business opportunity for some companies.

## Economic issues affecting international trade

- The world's income is unevenly distributed.
- The average American has an income that is around 60 times that of an average Ethiopian.
- The average income of the UK is around \$10,000 less than that of America but 44 times that of Ethiopia.
- High income countries are often known as developed countries.
- Low and middle income countries are often described as developing countries.
- The numbers of imports and exports are influenced by the level of development in a country.
- High income countries spend more on imports than low income countries.
- Businesses often take advantage of low wages in developing nations by relocating or outsourcing work.
- Many products made in developing nations lack high levels of quality or technological advances and do not sell well in developed countries.
- Businesses in developed countries often sell high priced, high quality products to developing countries.
- Businesses in developing countries often sell lower quality, less technologically advanced but cheaper products to developed countries.
- Most countries in the world use some form of protectionist policies designed to protect or enhance domestic industries.
- Import protection is designed to reduce imports being bought from abroad. It uses measures such as tariffs and quotas.
- Export subsidies are amounts of money a government might give firms that export products which helps to reduce the cost of production and potentially lower the selling price to the overseas consumer.
- These measures create winners and losers.
- UK tariff and quota measures are determined by the EU.

## The impact of government and the EU on business

- The UK is one of 27 countries (as of 2009) in the European Union, which was set up in 1957.
- Being part of the EU means that some decisions that were made at national level are now made at EU level, with safety or tariffs as examples.
- The EU has helped to create a single market with goods traded freely across national borders or member countries.
- Reducing barriers helps to create a more competitive market.
- Many members of the EU have a common currency, the euro, but not all do.
- Tax rates are still set by national governments.
- There are a whole host of different taxes in the UK, such as: Income Tax; Corporation Tax; Value Added Tax; National Insurance Contribution; and Excise Duty.
- Tax levels are often a determining factor of location for businesses operations.
- Regulations cover all aspects of a business.
- Regulations are designed to protect different stakeholder groups in a business.
- Compliance often incurs significant cost.
- The National Minimum Wage (NMW) is the lowest wage that a business can legally pay a worker.
- Pressure groups acting on behalf of businesses tend to argue that minimum wages are too high, whereas those on behalf of workers feel they are too low.
- Maternity rights are those legal rights a female has before, during and after pregnancy. Paternity rights are those available for new fathers.
- Some European countries have far more comprehensive and generous maternity and paternity rights than others.
- In the UK employers, by law, must keep a female's job open to her if she chooses to come back after maternity leave. This can prove disruptive to many firms.
- There are moral and economic issues in relation to the provision of such rights with different views on both sides.