

OCR level 1 / 2 Cambridge National in Enterprise & Marketing

Enterprise and marketing concepts

Unit no. R067 – exam unit

Revision guide

(40% of the total qualification grade)



Name:

Tutor:

Class:

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Topic Area 1: Characteristics, risk and reward for enterprise

1 Entrepreneur – definition

An entrepreneur is someone who takes the risk to start-up their own business idea. Starting up your own business is very risky as new businesses can easily fail. Not everyone has the characteristics or right motives to set up their own business.

1.1 Characteristics of successful entrepreneurs

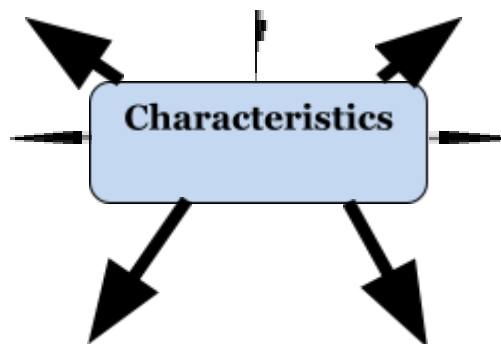
Not everyone can be entrepreneurs; successful ones usually have these characteristics:

Confidence to set up a business, gain investment from banks / investors, and be able sell to customers. Without investment and customers, a business will struggle to succeed.

Innovative to be able to think on their feet. Coming up with solutions to sudden problems and keep the customer interested in the business by keeping the business relevant.

Negotiation: Being able to make deals with supplier to get discounts and reduce costs. Negotiate with investors to get funding, and with customers to make sales. Being able to convince others is very important for success.

Creativity to be able to come up with a new business idea that is unique and will work in the area. Being unique will allow the business to be more successful.



Determined to put in the extra hours of work that can be the difference between being successful or not. They will not have a boss telling them what to do, therefore, they must be determined to make sure all jobs are complete

Risk taking. Entrepreneurs risk losing their own savings to start a business. Also, they may have left their old jobs losing secure wages to start a business.

Communication: Be able to deal with customers, suppliers, and investors professionally. Being an effective communicator will give off a professional image and allow the business be seen more positively by customers, investors and suppliers.

1.2 Rewards for risk taking

The rewards for risk taking and running a successful business are:

Financial: Running a business allows the entrepreneur to eventually make more sales, profit, and can pay themselves high wages than working for an alternative business.

Independence: Entrepreneurs are their own boss, they decide on the working hours, the jobs to complete and how to run the business.

Self-satisfaction: The joy that an entrepreneur will gain in coming up with a business idea and making money from it will give them a lot of self-satisfaction. They may become a role model in the local area.



Making a difference / change: Lots of entrepreneurs set up businesses to make their community / the world a better place. For example, creating more opportunities to young people, creating environmentally friendly alternatives.

1.3 Risks for risk taking

There are also lots of risks when trying to set up and run a business including:

Financial: Entrepreneurs will use their savings to fund a new business. They may also have to give up their job to set up a business full-time, losing guaranteed wages. There is no guarantee the business will be a success.

Health / Well-being: Entrepreneurs work many more hours running their own business than working for someone else with so many more tasks to complete. They will experience stress and worries if the business is failing to cover its costs / pay its bills.

Work-life balance: Entrepreneurs work many more hours running their own business than working for someone else. Even when hiring employees to share the workload, they must make sure all employees are doing their jobs correctly, increasing workload.



Personal relationships: Having less time for friends and family because of continuously running the business can affect personal relationships of the entrepreneur.

Imagine setting up your own restaurant from scratch rather than working as a chef in an already established restaurant. Think of all the additional tasks you would have to do to set up and run your own restaurant. Can you apply all of these risks and rewards to running your own restaurant rather than working as a chef in someone else's restaurant?

Topic Area 2: Market research to target a specific customer

2.1 The purpose of market research

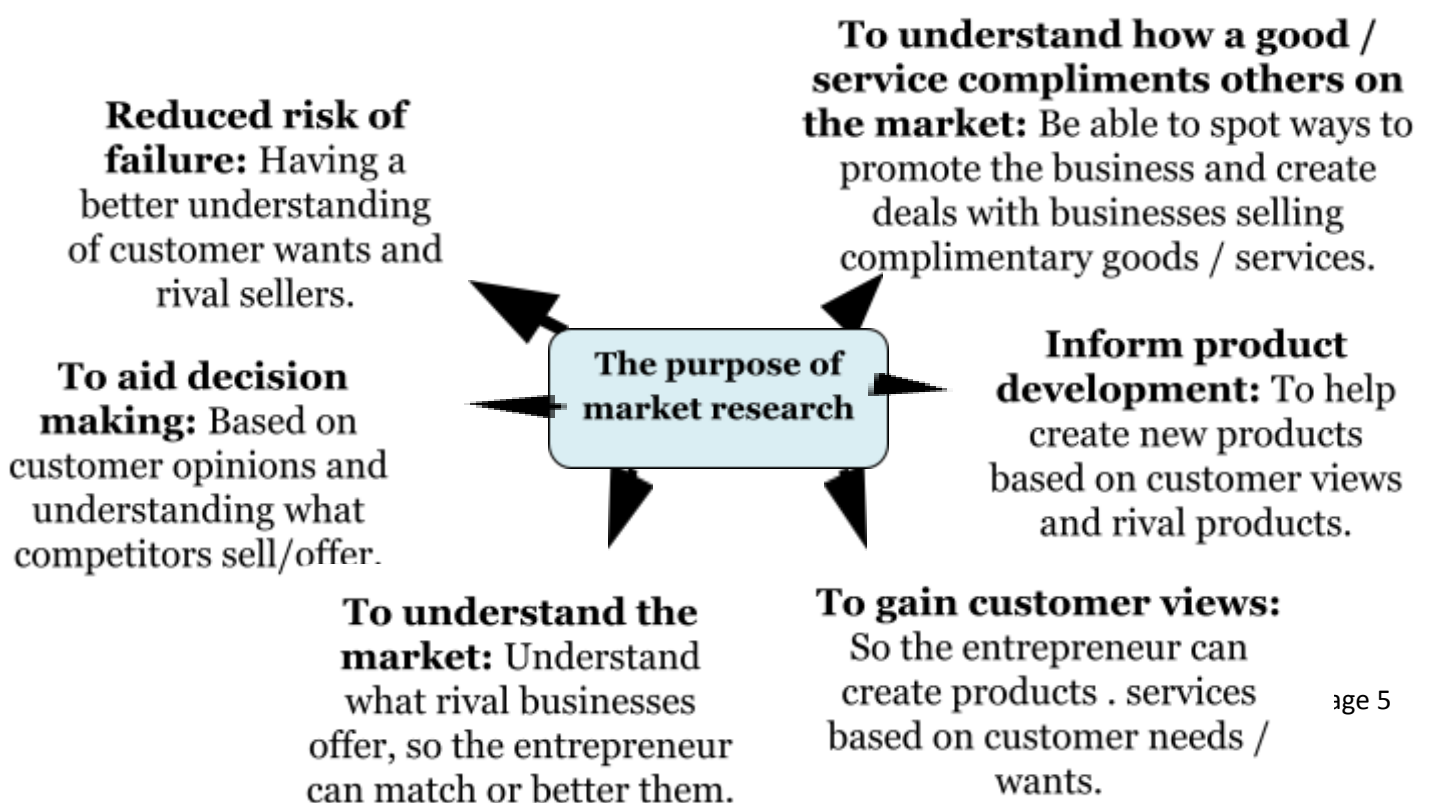
Market Research involves collecting information about customers, competitors, and trends in the market.

Why complete market research?

1. To understand customers views that will help the business develop a product / service the meets their needs at a suitable price.
2. To understand rival firms and helps the business spot a gap in the market to create a product / service better than the rivals.

When complete market research?

1. A new business should research their potential customers and competitors before launching the business in order to help plan for a successful business start-up that is different, better and suitable for its customers.
2. Businesses should regularly conduct research to find out changes in customer opinions and competitor actions to keep on top and stay relevant.



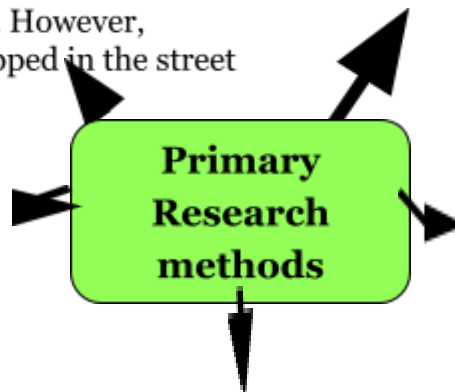
2.2. Market Research: Primary Research

Primary research involves collecting brand new information first hand.

Questionnaire / survey / interviews: This is when a business creates questions made up of quantitative and qualitative questions (see 2.4). The workers ask these questions to potential customers to gain an idea of their opinions.

Interviews allow for more detailed responses; however, it takes longer to conduct, and fewer customer responses are gained compared to questionnaires/surveys which can be answered more quickly and in open spaces. However, customers may not like to be stopped in the street to answer the questions.

Focus Group: This is when the business invites a small group of potential customers into a meeting room who discuss the business idea and its products. Workers from the business can make notes on customer's detailed opinions (qualitative research). It allows for detailed feedback, but from a limited range of customers in the room.



Observations: This is when the workers / entrepreneur watches rather than ask questions. They make notes on things that they see. E.g., Workers can observe the times of the day when certain areas of the town centre are at its busiest for certain customer groups. Customers will not be hassled; however, this only gains quantitative research as no opinions are gained from the customers.

Customer trails: This is when a small group of customers are given the good / service and use it / try it out. They will then provide feedback on their experiences with the good / service and recommend detailed qualitative improvements to make it better. However, these customer views may not reflect the views of everyone.

Test marketing / pilots: The good / service is released / sold in a small area first to gain feedback to help improvements before a full launch. It can be costly, and result in negative publicity if the good has lots of faults.

The advantages and disadvantages in using Primary Research

Advantages	Disadvantages
<p>Primary research is brand new research that has just been collected, so it is up to date and is based upon the current market situation. (Current customer views and competitor actions)</p> <p>Primary research is specific to the business's needs. The business will only research questions and topics they need information on and so it is more relevant for them.</p>	<p>It can take a lot of time and cost a lot of money to research many potential customers. The business may have to pay extra for workers to carry out the research.</p> <p>The results are only reliable if a large sample of customers have taken part in the research.</p> <p>Customers / other businesses may not be willing to answer questions, talk over the phone or be observed.</p>

2.3 Market Research: Secondary Research

Secondary research involves using information that has already been collected by someone else for a different purpose.

Government publications / statistics:

The government creates reports each month covering a range of statistics such as: income levels in different areas of the UK, number of businesses in different areas of the UK, number of people without jobs in different areas of the UK. Online national statistics is an example of government reports. Businesses can see the trends in their area to help them plan. However, statistics are only quantitative and gives no reasons why the changes have happened.

Competitors' data: Competitor websites will provide lots of information about them that the business can use to help differentiate themselves such as the products they sell and their prices. However, it is quantitative only and does not provide details on why they are selling products at different prices and which ones are more successful.

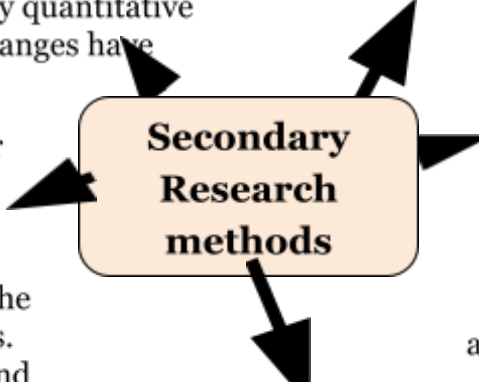
Specific reference to types of internet websites. E.g., competitor's website, Mintel, ONS are good examples of secondary research. However, just saying "the internet" is too generic and will not be credited in the exam.

Internal data:

Such as previous sales figures, records of past advertising campaigns such as the outcome of a sales promotion strategy on sales in the past. This internal data can help the business decide on future strategies based the success of strategies in the past. However, customer opinions may have changed, and the current market could be very different.

Books, newspapers, trade magazines:

Previous research or stories published by journalists / business professionals. This can help the business understand past trends in their industry to help future decision making. However, the research could be out of date and not fully relevant to the current market for the business.



Secondary Research methods

Mintel or similar: A company that produces and sells their analysis of consumer and industry trends. It can be expensive for businesses to purchase these reports. However, the research data is usually based on a large sample / area and covers a large timeline so trend analysis can be spotted to help business decision making.

The advantages and disadvantages in using Secondary Research

Advantages	Disadvantages
<p>It is usually cheaper and much quick to access because the research has already been carried out.</p> <p>It is useful for businesses that do not have the time or money to carry out their own research.</p> <p>Government publications and research organisations such as Mintel produce statistics from a large sample / area.</p>	<p>It can be out of date and may not reflect the current market (customer views or competitor actions).</p> <p>It is not specific to the business as the research was carried out for a different purpose by someone else. The business may not find out all the specific information they wanted to know.</p>

2.4 Market Research: Types of data

The results /data from market research findings can be collated internally (inside the business) or externally (Outside the business). Examples of internal data includes the results of a business's own surveys or sales data. Examples of externally collated data include government reports and Mintel. **Data can be quantitative or qualitative.**

Typical questions found in a customer questionnaire for a restaurant:

Q.6) How much would you pay for a three-course meal?

Please circle

Under £10 £10 - £15 £16 - £20 £21 - £25 Over £25

Results (data) from the above question:

Q6. Price customers will pay



Q6 is an example of **Quantitative data**. **Quantitative data** is research that can easily be analysed in a numerical way. For example, in this question we can add up how many customers picked each price option.

An advantage of quantitative data is that it is easy to compare results between the options customers selected, and graphs can be created to show these results. The graph to the left shows that most customers will pay £10 - £15, so the business should charge this amount to gain sales.

A disadvantage of quantitative data is that it does not tell us why customers selected that answer. Why did most customers pick £10 - £15?

Q.7) Please can you tell us why you selected that price option:

Please write your answer below:

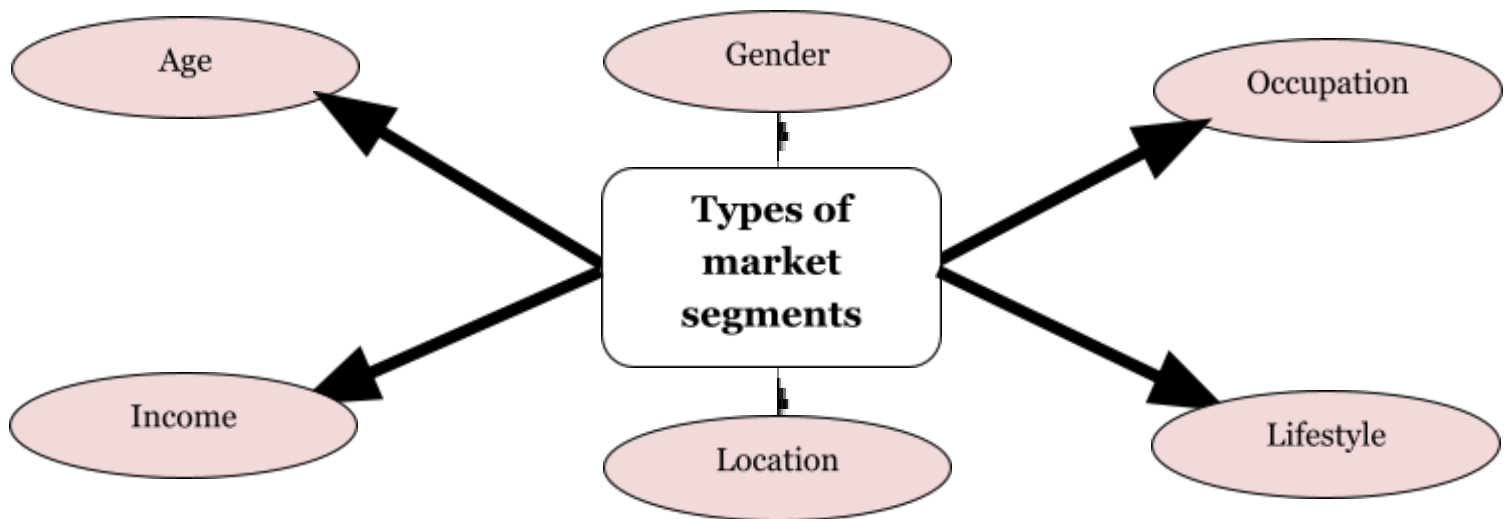
Q7 is an example of **Qualitative data**. **Qualitative data** is research based on opinions (open ended questions).

An advantage of qualitative data is that the answers are more detailed and tells the business **why** the customer answered in a particular way.

A disadvantage of qualitative data is that it is difficult to compare the results, and the results cannot be easily put into a graph because every customer can give a completely different answer to each other.

2.5 Types of market Segmentation

Market segmentation means breaking down customers into different groups with similar characteristics.



Market segment	Example
Age	TV companies have different TV channels for different age groups e.g., CBeebies for young children. Some local fish and chip shops offer daytime OAP meal deals for pensioners.
Gender	Magazine companies have different magazines for different genders e.g., Vogue for females. Men's health for Men.
Occupation	A manufacturer of clothing and footwear may segment their customers based on their occupations. E.g., suits for businesspeople, hi-vis jackets, and steel-toe boots for builders / mechanics.
Income	Transportation companies have allocated seats for different income levels (first class, business class, standard). Fashion brands such as Gucci and Lacoste target high income people.
Location	Nike and Adidas will sell different sportswear in different locations depending on the most popular sport team in that area. Business may offer more swimwear in towns near the sea.
Lifestyle	Lifestyle segmentation is about the different habits and preferences of different types of people. For example, the lifestyle of a university student will be very different to that of a business professional or family. A food producer may target the university student lifestyle with frozen meals, easy meals, and meal deals. A pub / restaurant may target them with lower prices and offer live band entertainment. Whereas for families, a food producer may target them with bigger family pack portion sizes. A pub / restaurant may offer facilities like a park for children to play on whilst waiting for their food to attract more families to the restaurant.

Benefits of Market Segmentation

The benefits of understanding the specific market segments that are interested in the business:

- Helps identify and meet specific customer needs better. It allows the business to create a good / service that is suitable for different market segments.
- Customers will return to the business if their needs are met, increasing sales and profit.
- Attracting more customer segments will increase the market share of the business.

- Allows the business to create more specific promotions to attract the different market segments.

Topic area 3: What makes a product financially viable

3.1 Cost of producing the product

Before a business can sell its products and services, they first must invest a sum of money getting the business ready, preparing the good / service in order to make sales from it. This section will cover the different type of costs a business must pay for in order to be able to sell their products / services.

Fixed Costs

Fixed costs are costs that do not change with output.

Imagine setting up your own small photography business. Fixed costs for this business would be all the costs you would have to pay regardless of how many customers you have each week/month/year. Fixed costs stay the same, if you had 0 customers, 10 customers or 100 customers, the amount you must pay for fixed costs will not change.

Examples of fixed costs:

- **Rent:** A business must pay its landlord the same amount of rent each month regardless of how many sales (output) they have.
- **Insurance:** Such as property insurance and liability insurance. Each month the business must protect itself against the risk of property damage and risk of injury. Regardless of the number of sales, the insurance cost is the same each month.
- **Advertising:** A business does not pay for promotion per customer. They will spend a sum of money at different stages of the year to help increase sales. As the cost of this promotion does not link directly with the number of sales (output), it is a fixed cost.
- **Loan interest:** Most businesses will take out loans to help pay for the costs of running a business. Banks make money through charging interest on top of the loan when the loan is paid back each month. For example, a £12,000 loan given to a business, paid back each month over one year is £1,000 loan repayment per month. However, for the bank to earn money themselves they will charge interest on top of the loan repayment. E.g., The business may have to pay £1,200 per month when paying back the loan (£200 interest). This is a fixed cost as the loan interest is paid back each month regardless of number of sales (output).
- **Salaries:** Managers are paid a salary. This means that their pay is not linked to how many hours they work or how many sales they make. They get paid the same amount each month. A manager of a retail store may work more hours near Christmas. They may open their shop longer each day. However, the manager will get paid the same this month as per other months, as a salary payment is not linked to sales made.
- **Utilities:** These are the bills a business must pay such as lighting, heating, water, phone and broadband bills. In most cases (which is also true for your course) they are

fixed costs because these bills must be paid each month regardless of how many sales a business makes. Therefore, they are also fixed costs.

Variable Costs

Variable costs are costs that directly change with output.

Imagine setting up your own small photography business. Variable costs will increase for the business each time you make an extra sale. For example, each time a customer receives a photo shoot, the photography business may provide a photo album book with the photos. The more customers (sales) they have, the more photo album books they must purchase.

Examples of variable costs:

- **Raw materials / components:** Also known as stock items. For a business to produce the good / service for the customer they must first buy the raw materials / components to be able to make the product or deliver the service. The more sales the business makes, the greater number of raw materials / components are needed. E.g., the photography business will have to purchase one photo album book for one customer (sale) and ten photo album books for ten sales.
- **Packaging:** Each product sold will be packaged. The more products sold the more packaging is required by the business. This means the packaging costs varies depending on number of items sold.
- **Wages:** Workers are paid wages. Wages are paid per hour. The more hours a worker works, the more pay they get. During busy times for retail workers e.g., over Christmas, when more sales are made. Workers will have to work more hours to meet the higher demand. This will mean wages will be higher when the business has more sales / customers, making wages a variable cost.

Activity 1: Fixed or variable

Sort the following costs for a Pizza store into fixed and variable costs:

Monthly rent of the store *Toppings e.g. cheese, tomatoes* *Pizza dough*
Managers salary *Pizza oven* *Pizza Boxes* *Workers wage*
Utility bill for lighting of the store *Radio advert* *Loan interest*

(Answers are on the top of the next page)

Activity 1 answers:

<i>Fixed costs</i>	<i>Variable costs</i>
<i>Rent of the store</i>	<i>Toppings (cheese, tomatoes) (raw materials)</i>
<i>Managers salary</i>	<i>Pizza dough (raw materials)</i>
<i>Pizza oven (equipment)</i>	<i>Pizza Boxes (packaging)</i>
<i>Utility bill</i>	<i>Worker's wage</i>
<i>Radio advert (promotion)</i>	
<i>Loan interest</i>	

Total Costs

Total costs = Total fixed costs + Total variable costs

The most difficult part of this calculation is making sure you multiply the variable costs by the number of units sold as the variable cost increases for every extra unit sold.

e.g. for the Pizza store above:

Total fixed costs last month were £6,000

Variable cost per pizza is £4

Last month the business sold 500 Pizza, what was the total costs for last month?

Fixed costs = £6,000 Variable costs = £4 x 500 pizzas = £2,000 is the total variable costs

Total costs = £6,000 + £2,000 = £8,000

Your go: *Can you calculate the total costs in the two following examples:*

- Freddie owns and runs a dog walking business. His fixed costs last year came to £25,000. For each dog walk Freddie provides dog treats, these variable costs are £3 per dog walk. Last year Freddie walked 4000 dogs. What was Freddie's total costs last year?*
- The table below provides cost information for last month for a window cleaning business run by Sasha:*

<i>Cost</i>	<i>Amount</i>
<i>Sasha's salary</i>	<i>£3,000</i>
<i>Advertising</i>	<i>£500</i>
<i>Other fixed costs</i>	<i>£500</i>
<i>Window cleaner</i>	<i>£5 per house</i>

Sasha cleaned 400 houses last month

Calculate Sasha's total costs for last month. (You first must sort these costs into fixed and variable costs before trying to calculate the total costs)

Answers are on the next page

Activity 2 answers:

Fixed costs for Freddie = £25,000

Variable costs for Freddie = £3 x 4000 dog walks = £12,000

Total costs for Freddie for last year = **£37,000**

Activity 3 answers:

Fixed costs:

Sasha's salary: £3,000

Advertising: £500

Other fixed costs: £500

Total fixed costs: **£4,000**

Sasha's total costs last month: £4,000 & £2,000 = **£6,000**

Variable costs:

Window cleaner: £5 per house

x 400 houses cleaned

Total variable costs: **£2,000**

Calculating costs per unit

Cost per unit is where you divide the costs by the number of units sold.

Fixed costs per unit = Total fixed costs / number of units sold

Variable costs per unit = Total variable costs / number of units sold

Total costs per unit = Total costs / number of units sold

For the Pizza store:

Fixed costs were £6,000

Total variable costs were £2,000

Total costs were £8,000

These costs were based on selling 500 Pizzas last month

Fixed costs per unit (pizza) = £6,000 / 500 = £12 per pizza

Variable costs per unit (pizza) = £2,000 / 500 = £4 per pizza

Total costs per unit (pizza) = £8,000 / 500 = £16 per pizza

Your go:

4. For Freddie's dog walking business calculate:

- a. Fixed costs per unit
- b. Variable costs per unit
- c. Total costs per unit

Freddie owns and runs a dog walking business. His fixed costs last year came to £25,000. For each dog walk Freddie provides dog treats, these variable costs are £3 per dog walk. Last year Freddie walked 4000 dogs.

(Answers on the next page)

Activity 4 answers:

Fixed costs per unit for Freddie = $£25,000 / 4,000 = £6.25$ per unit / dog walk

Variable costs per unit for Freddie = $£12,000 / 4,000 = £3$ per unit / dog walk

Total costs for Freddie for last year = $£37,000 / 4,000 = £9.25$ per unit / dog walk

3.2 Revenue generated by sales of the product

Total revenue is all the money received from the sale of the good / service. It is calculated using the following formula:

Total revenue = Selling price per unit x Number of sales

Last month The Pizza Store sold 500 pizzas at a price of £20 each.

The total sales revenue = $£20 \times 500 = £10,000$

Your go:

5. Calculate the total revenue for the following businesses:
 - a. Last year Freddie walked 4,000 dogs and charged £15 per dog walk
 - b. Last month Sasha cleaned 400 houses and charged £25 per house

(Answers on the next page)

In your exam you may also be asked to find out the price or number of sales

Example 1: Last year Muhammed made £200,000 sales revenue and charged £100 per sale. How many sales did Muhammed receive last year?

Total revenue = Selling price per unit x Number of sales

$£200,000 = £100 \times ?$

To answer this question, you divide the sales revenue by the price to find the answer:

$£200,000 / £100 = \mathbf{2,000 \text{ number of sales}}$

Example 2: Last month Agata made £5,000 sales revenue from 2,000 number of sales. What price did Agata charge?

Total revenue = Selling price per unit x Number of sales

$£5,000 = ? \times 2,000$

To answer this, you divide the sales revenue by the number of sales to find the price:

$$£5,000 / 2,000 = £2.50$$

Your go:

6. A) Last year Freya made £25,000 sales revenue and charged £2 per sale. Calculate the number of sales for Freya last year?
 6. B) Last month Mike made £3,000 sales revenue from 1,000 sales. What was the price?

Activity 5 answers:

- a) $4,000 \times £15 = £60,000$ sales revenue
 b) $400 \times £25 = £10,000$ sales revenue

Activity 6 answers:

- a) $£25,000 / £2 = 12,500$ total sales last year
 b) $£3,000 / 1,000 = £3$ price

3.3 Profit/loss

Profit is the total money a business makes once all costs have been deducted.

$$\text{Profit} = \text{Total revenue} - \text{Total costs}$$

$$(\text{Price} \times \text{number of sales}) \quad (\text{total fixed} + \text{total variable costs})$$

Loss is where a business's costs are higher than its revenue, so the business has lost money rather than made profit.

Cost and sales information from three hair salons below to calculate the total profit for the year:

	Business A	Business B	Business C
Fixed costs per year	£20,000	£15,000	£18,000
Variable cost per haircut	£3.60	£5	£3
Selling price per haircut	£10	£11	£9
Total number of sales last year	4,000	2,200	3,500

Total profit for Business A:

$$\text{Total revenue} = £10 \times 4,000 = £40,000$$

$$\text{Total costs} = £20,000 + (£3.60 \times 4,000) = £34,400$$

$$\text{Profit} = £40,000 - £34,400 = £5,600 \text{ profit}$$

Remember: When calculating total costs, you need to add up the total of fixed and variable costs together. To calculate total variable costs, you multiply the variable cost per unit by the total number of sales as variable costs increases the more units a business sells.

Total profit for Business B:

$$\text{Total revenue} = £11 \times 2,200 = £24,200$$

Total profit for Business C:

$$\text{Total revenue} = £9 \times 3,500 = £31,500$$

$$\text{Total costs} = \text{£}15,000 + (\text{£}5 \times 2,200) = \text{£}26,000$$

$$\text{Profit} = \text{£}24,200 - \text{£}26,000 = \text{£}1,800 \text{ Loss}$$

$$\text{Total costs} = \text{£}18,000 + (\text{£}3 \times 3,500) = \text{£}28,500$$

$$\text{Profit} = \text{£}31,500 - \text{£}28,500 = \text{£}3,000 \text{ profit}$$

Profit per unit is the total money a business makes per sale once costs have been deducted.

$$\text{Profit per unit} = \text{Selling price (revenue per unit)} - \text{Total cost per unit}$$

To work out the total costs per unit, you first have to calculate the total costs and then divide by how many sales the business made to get the total cost per unit.

Cost and sales information from three hair salons below to calculate the profit per unit:

	Business A	Business B	Business C
Fixed costs per year	£20,000	£15,000	£18,000
Variable cost per haircut	£3.60	£5	£3
Selling price per haircut	£10	£11	£9
Total number of sales last year	4,000	2,200	3,500

Total profit per unit for Business A:

$$\text{Selling price (revenue per unit)} = \text{£}10$$

$$\text{Total costs} = \text{£}20,000 + (\text{£}3.60 \times 4,000) = \text{£}34,400$$

$$\text{Total costs per unit} = \text{£}34,400 / 4,000 = \text{£}8.60$$

$$\text{Profit per unit} = \text{£}10 - \text{£}8.60 = \text{£}1.40 \text{ profit per unit}$$

The selling price per unit is always the same as the revenue per unit.

Total profit per unit for Business B:

$$\text{Selling price} = \text{£}11$$

$$\text{Total costs} = \text{£}15,000 + (\text{£}5 \times 2,200) = \text{£}26,000$$

$$\text{Total costs per unit} = \text{£}26,000 / 2,200 = \text{£}11.82$$

$$\text{Loss per unit} = \text{£}11 - \text{£}11.82 = \text{£}0.82\text{p Loss per unit}$$

Total profit per unit for Business C:

$$\text{Selling price} = \text{£}9$$

$$\text{Total costs} = \text{£}18,000 + (\text{£}3 \times 3,500) = \text{£}28,500$$

$$\text{Total costs per unit} = \text{£}28,500 / 3,500 = \text{£}8.14$$

$$\text{Profit per unit} = \text{£}9 - \text{£}8.14 = \text{£}0.86\text{p per unit}$$

Your go:

7. Below is cost and sales information for two local fish and chip shops

	Sandy's chippy	Chip's F&C shop
Fixed costs last month	£5,000	£8,000
Variable cost per meal (unit)	£4	£6

Selling price per meal (unit)	£12	£14
Total number of sales last month	700	900

- a) Calculate the profit for each business for last month
b) Calculate the profit per unit (meal) for each business for last month (answers on the next page)

Activity 7 answers:

a)

Sandy's Chippy

Total revenue = £12 x 700 = £8,400

Total costs = £5,000 + (£4 x 700) = £7,800

Profit = £8,400 - £7,800 = £600 profit

Chip's F&C shop

Total revenue = £14 x 900 = £12,600

Total costs = £8,000 + (£6 x 900) = £13,400

Profit = £12,600 - £13,400 = £800 loss

b)

Sandy's Chippy

Selling price = £12

Total costs = £5,000 + (£4 x 700) = £7,800

Total cost per unit = £7,800 / 700 = £11.14

Profit per unit = £12 - £11.14 = £0.86p profit

Chip's F&C shop

Selling price = £14

Total costs = £8,000 + (£6 x 900) = £13,400

Total cost per unit = £13,400 / 900 = £14.89

Profit per unit = £14 - £14.89 = £0.89p loss

In your exam you may be given the profit amount and you must find out the total revenue or total costs.

In your exam you may be given the profit per unit, and you must find out the selling price (total revenue per unit) or total costs per unit.

Can you work out the missing figures in the tables below:

	Business D	Business E	Business F
Total revenue	£20,000		
Total costs		£54,000	£18,000
Profit (or loss)	£5,000	£3,000 (loss)	£16,000

	Business G	Business H	Business J
Total revenue per unit (selling price)	£48		£32.50
Total costs per unit		£12.50	

Profit (or loss) per unit	£20	£1.50 (loss)	£18.50

Answers are on the next page

	Business D	Business E	Business F
Total revenue	£20,000	£51,000	£34,000
Total costs	£15,000	£54,000	£18,000
Profit (or loss)	£5,000	£3,000 (loss)	£16,000

	Business G	Business H	Business J
Total revenue per unit (selling price)	£48	£11	£32.50
Total costs per unit	£28	£12.50	£14
Profit (or loss) per unit	£20	£1.50 (loss)	£18.50

3.4 How to use the formula for break-even as an aid to decision making

Break Even is a very important financial concept as it calculates exactly how many goods / services a business needs to sell to cover their costs.

Break Even is the level of output where Total Revenue = Total Costs

Each day Carys sells bunches of flowers in a local market stall. Her total fixed cost each day is **£100**. Carys sells flowers for a price of **£2** each and the variable costs to provide each bunch of flowers is **£1**.

For Carys to cover her daily fixed costs of £100, she would need to make £100 from selling her flowers. As she sells them for £2 each and the variable costs are £1 each, Carys makes £1 from each bunch of flowers she sells. This means she needs to sell 100 bunches of flowers to break even each day.

You will get given the break-even formula in your exam

$$\text{Break Even output (quantity)} = \frac{\text{Fixed Costs}}{\text{Selling price per unit} - \text{variable cost per unit}}$$

Your go:

Activity 8: Calculate the number of units the following businesses need to sell to break even:

- a) Sanjay has monthly fixed costs of £2,000. He charges a price of £20 and has variable costs of £10 per unit. What is Sanjay’s monthly break-even output?
- b) Anne-Marie has yearly fixed costs of £50,000. She charges a price of £10 and has variable costs of £2 per unit. How many units does Anne-Marie need to sell each year to break even?

Activity 8 answers:

a) Sanjay’s monthly break-even output =

£2,000

$£20 - £10 = 200$ units need to be sold each month for Sanjay’s business to break even

b) Annemarie’s yearly break-even output =

£50,000

$£10 - £2 = 6,250$ units need to be sold each year for Anne-Marie’s business to break even

In your exam you may be given the break-even quantity, and instead you need to calculate the fixed costs, selling price per unit or variable cost per unit, for example:

	Business K	Business L	Business M
Fixed costs per month	£10,000	£20,000	
Selling price per unit		£30	£5
Variable cost per unit	£10		£3
Break even quantity	5,000 units	2,500 units	7,500 units

Business K: £10,000

$£? - £10$

$= 5,000$ units

Business L: £20,000

$£30 - £?$

$= 2,500$ units

Business M: £ ?

$£5 - £3$

$= 7,500$ units

To find the missing selling price:
 A) firstly, divide the fixed costs by the break-even amount.
 $£10,000 / 5,000 = £2$
 £2 is the difference between the selling price and variable costs
 B) $£? - £10 = £2$
 Therefore, the missing number for sales revenue is **£12**

To find the missing variable cost:
 A) firstly, divide the fixed costs by the break-even amount.
 $£20,000 / 2,500 = £8$
 £8 is the difference between the selling price and variable costs
 B) $£30 - £? = £8$
 Therefore, the missing number for variable costs is **£22**

To find the missing fixed costs:
 A) firstly, subtract the variable costs from the selling price ($£5 - £3$), this leaves £2.
 Fixed costs / £2 = 7,500 units.
 B) Now we must rearrange the formula and multiply the break-even amount by the answer to part A.
 $7,500 \times £2 = £15,000$ – this is the missing fixed costs.

Your go: Activity 9: Calculate the missing figures from the break-even formula below:

	Business N	Business P	Business Q
Fixed costs per month	£12,000	£18,000	
Selling price per unit		£40	£9
Variable cost per unit	£14		£4
Break even quantity	6,000 units	1,800 units	6,000 units

Activity 9 answers:

Business N: £12,000

Business P: £18,000

Business Q: £ ?

£? - £14

£40 - £?

£9 - £4

= 6,000 units

= 1,800 units

= 6,000 units

To find the missing selling price:
 A) firstly, divide the fixed costs by the break-even amount.
 $£12,000 / 6,000 = £2$
 £2 is the difference between the selling price and variable costs
 B) $£? - £14 = £2$
 Therefore, the missing number for sales revenue is **£16**

To find the missing variable cost:
 A) firstly, divide the fixed costs by the break-even amount.
 $£18,000 / 1,800 = £10$
 £10 is the difference between the selling price and variable costs
 B) $£40 - £? = £10$
 Therefore, the missing number for variable costs is **£30**

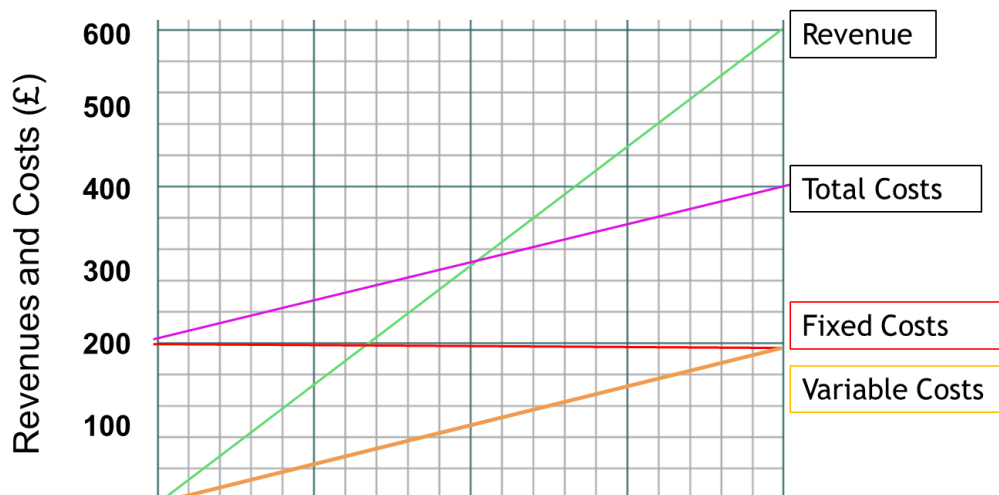
To find the missing fixed costs:
 A) firstly, subtract the variable costs from the selling price (£9 - £4), this leaves £5.
 Fixed costs / £5 = 6,000 units.
 B) Now we must rearrange the formula and multiply the break-even amount by the answer to part A.
 $6,000 \times £5 = £30,000$ – this is the missing fixed costs.

3.4 How to use the break-even graph as an aid to decision making

In your exam you will not be required to draw a fully completed break even graph. However, you may be asked to complete an unfinished graph and / or interpret a break-even graph.

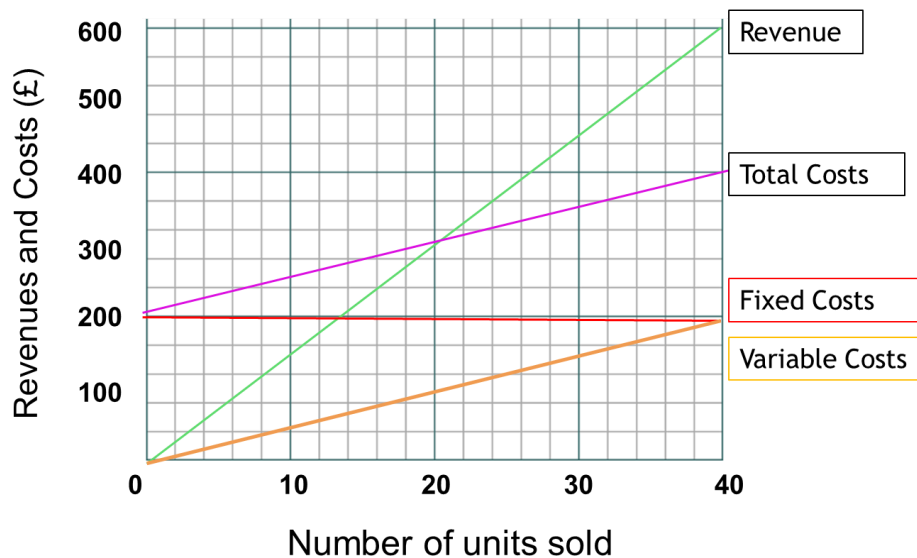
The graph below shows a break-even graph for Bob and his boat tour business. Bob can take up to a maximum of 40 people on each boat trip. He charges a price of £15 each and has variable costs of £5 per unit. His fixed costs per boat trip is £200. The graph shows how many customers he needs on each boat trip to break even.

The vertical axis always shows the revenues and costs amount.



The horizontal axis shows the number of units sold. This is the axis that will identify the number of sales needed in order for the business to break even.

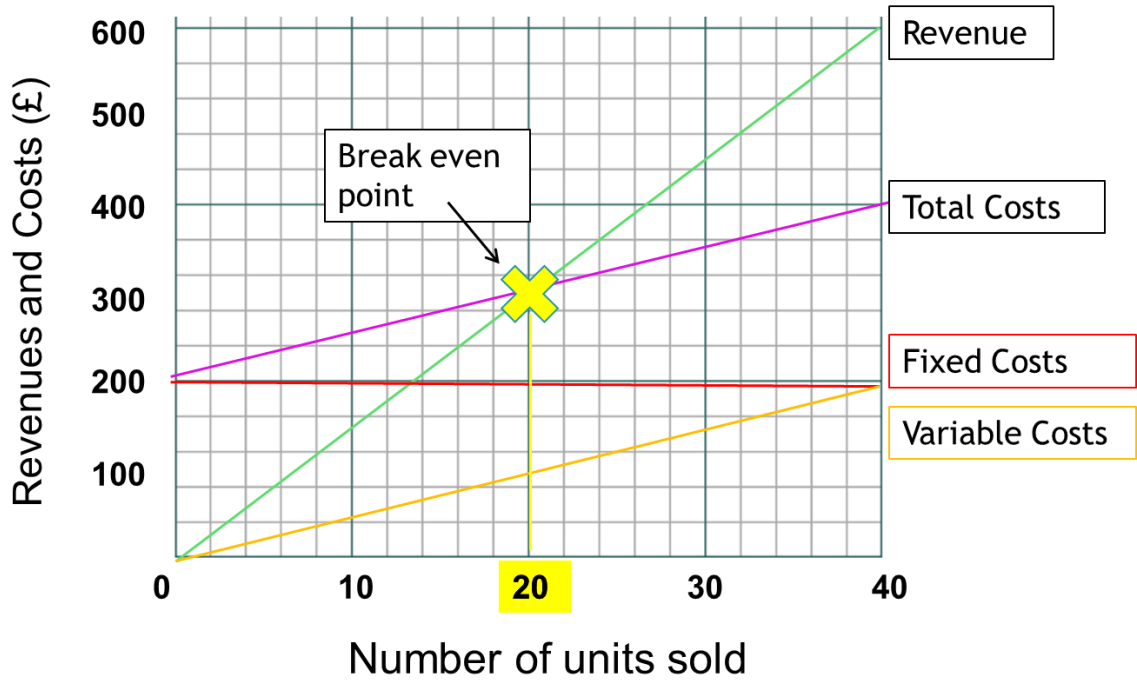
The graph below shows a break-even graph for Bob and his boat tour business. Bob can take up to a maximum of 40 people on each boat trip. He charges a price of £15 each and has variable costs of £5 per unit. His fixed costs per boat trip is £200. The graph shows how many customers he needs on each boat trip to break even.



When plotting the break-even graph, you only ever need to plot the revenues and costs at two points:

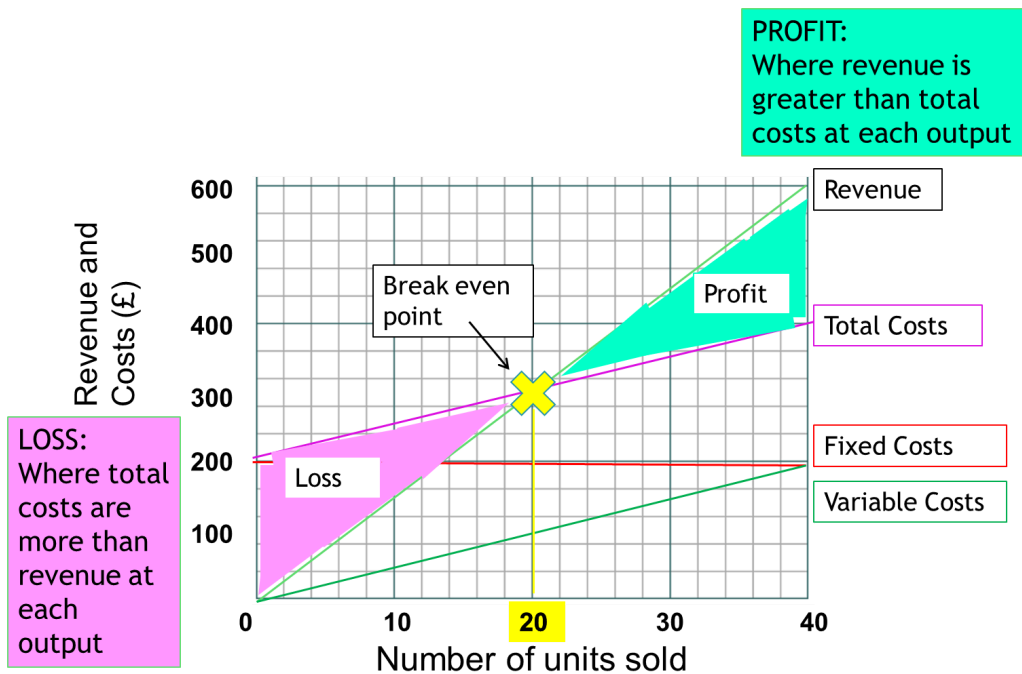
- At 0 units sold
- Maximum units sold (in this example it is 40)
- **Revenue line (price x number of units sold)**
 - The revenue line will always start at 0, this is because if no units are sold, no revenue is made. In Bob's case no passengers mean no revenue.
 - To work out where the revenue line finishes use the formula above. In Bob's boat trip break even graph above: £15 price x 40 passengers = £600.
 - Then you draw a line connecting these two points (shown above)
- **Fixed costs line (price x number of units sold)**
 - Fixed costs stay the same regardless of units sold. This will always be a straight line.
 - In Bob's graph, his fixed costs per boat trip is £200. So, a straight line from £200.
- **Total variable costs (variable cost per unit x number of units sold)**
 - The variable costs line will always start at 0, this is because if no units are sold, there is no variable cost.
 - To work out where the variable costs line finishes use the formula above. In Bob's boat trip break even graph above: £5 variable cost x 40 passengers = £200.
 - Then you draw a line connecting these two points (shown above)
- **Total costs line (total fixed costs + total variable costs)**

The graph below shows a break-even graph for Bob and his boat tour business. Bob can take up to a maximum of 40 people on each boat trip. He charges a price of £15 each and has variable costs of £5 per unit. His fixed costs per boat trip is £200. The graph shows how many customers he needs on each boat trip to break even.



● **The break-even point (break even output)**

- Is where the total revenue and total cost lines meet
- In Bob's example above the break-even output is at 20. This means he needs 20 passengers on each boat trip for him to cover all his costs (break-even)

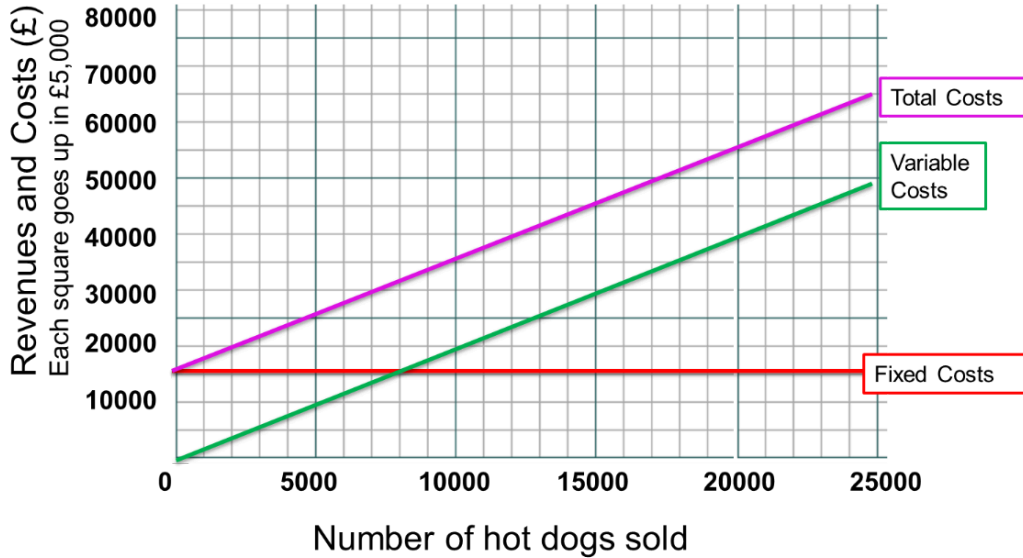


Although you won't have to show this in your exam, the break-even graph can also show the amount of profit and loss at different number of units sold. Notice at the break even output it is neither a profit or loss. This is because break-even is the number of sales required so that all costs are covered, yet still no profit is made.

Jim has provided an unfinished break-even graph of his hot dog van business for the next year. Jim charges customers £3 for each hotdog and expects to sell 25,000 hotdogs over the next year.

Activity 10: The break-even graph for Jim’s hotdog’s below is currently missing the revenue line.

- Draw onto the graph the revenue line using the information in the scenario above.
- Mark on the graph the break-even point and the break-even output

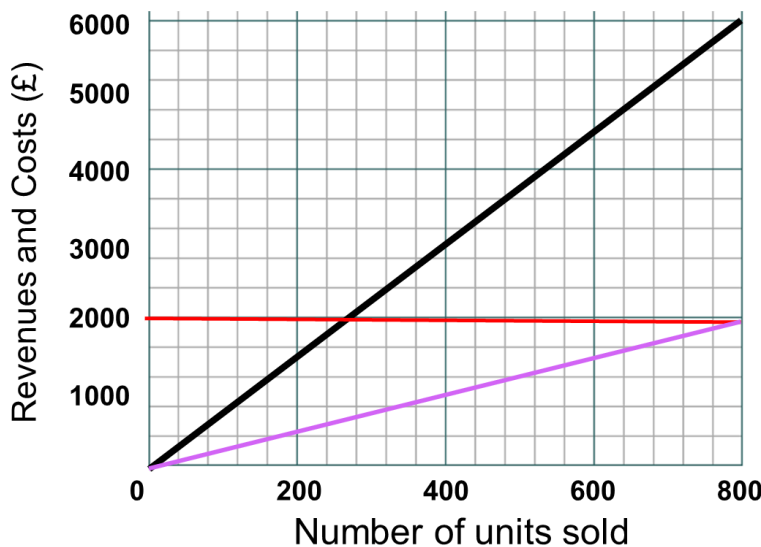


Scenario 2: Komalpreet’s personal trainer business

Komalpreet has provided an unfinished break-even chart below of her business for the next month. Her fixed costs are £2,000, her variable costs per unit are £2.50 and she charges a price to customers of £7.50.

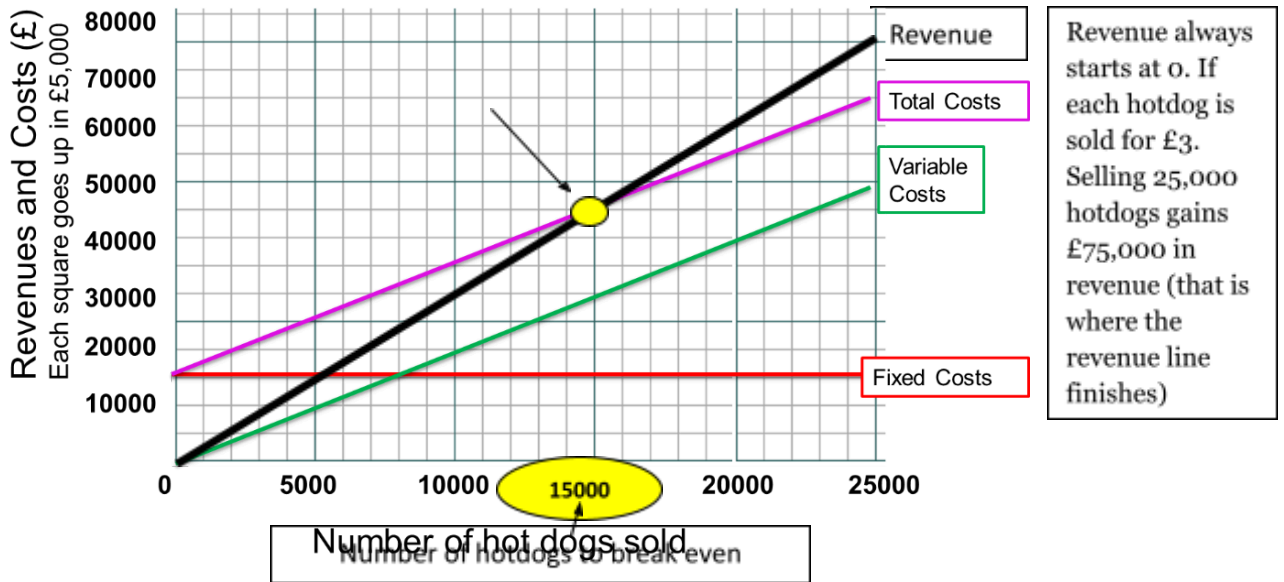
Activity 11: The break-even graph below is currently missing labels and the total cost line.

- Label the sales revenue, fixed costs and variable costs lines.
- Draw onto the graph the total cost line using the information in the scenario above
- Mark on the graph the break-even point and the break-even output



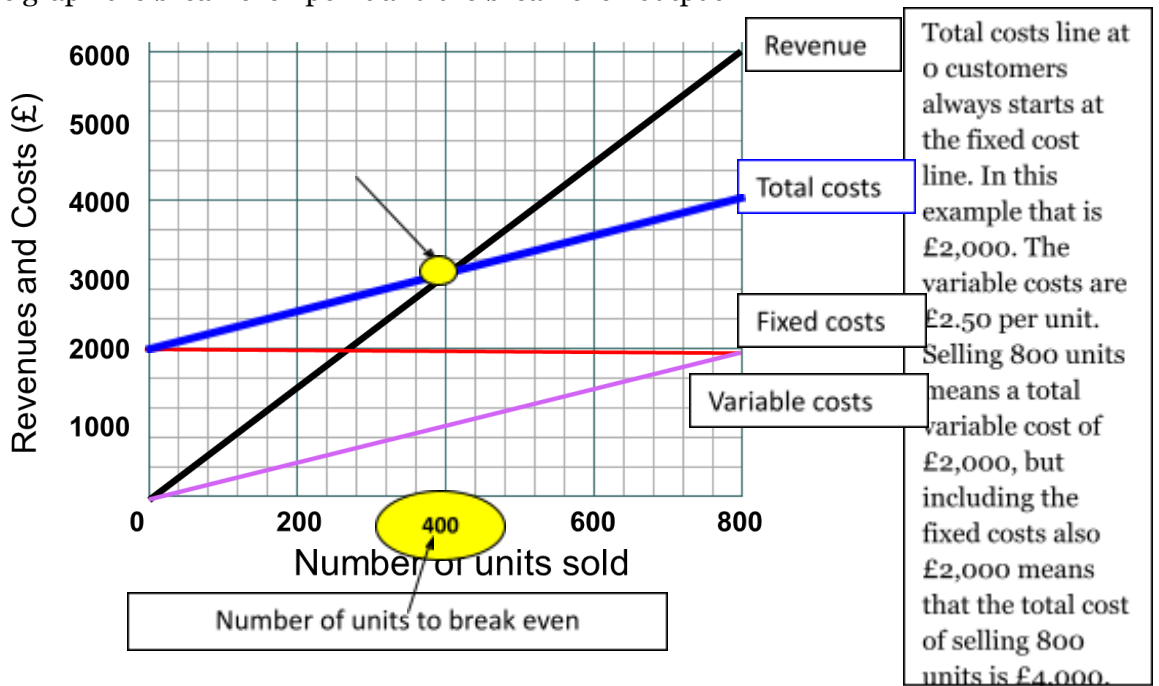
Activity 10 and 11 answers:

- Draw onto the graph the revenue line using the information in the scenario above.
- Mark on the graph the break-even point and the break-even output



Scenario 2: Komalpreet’s personal trainer business

- Label the sales revenue, fixed costs and variable costs lines.
- Draw onto the graph the total cost line using the information in the scenario above
- Mark on the graph the break-even point and the break-even output



How break-even information is used by an entrepreneur?

Understanding the minimum number of sales needed to be sold to cover the costs is important because:

- It helps the entrepreneur work out whether their business idea has a realistic chance of being successful.
- It provides a minimum sales target for the entrepreneur and the workers.
- The entrepreneur can re-calculate the break even in the event of changes in costs or prices and helps the entrepreneur understand whether the new break-even output is achievable.
- It can help support evidence for why banks and investors should loan / invest in the business.

3.5 Importance of cash

Cash and Profit are two different things.

Cash is the available day to day money that a business has to pay its current bills.

Profit is the money made at the end. It is the difference between the total revenue and total costs.

Scenario: Francois started up his French restaurant 8 months ago. Francois's business almost failed before the opening day as he almost ran out of cash. Francois has provided a timeline of his business over the past few months to help you understand the difference between cash and profit:

8 months ago: Francois had £20,000 of his own cash savings to help set up his first small French restaurant.

7 months ago: Francois started renting a premises costing him £1,000 a month to rent.

6 months ago: Francois started purchasing cooking equipment, tables, chairs and other items for his restaurant costing him £5,000. He also had to pay his monthly rent of £1,000. Francois also started decorating his restaurant to a French theme. This cost him £1,000.

5 months ago: Francois got a professional marketing business to create leaflets, posters, and business cards to promote the business. The marketing business also created and installed a brand-new sign above the front of the restaurant. This cost Francois £3,000.

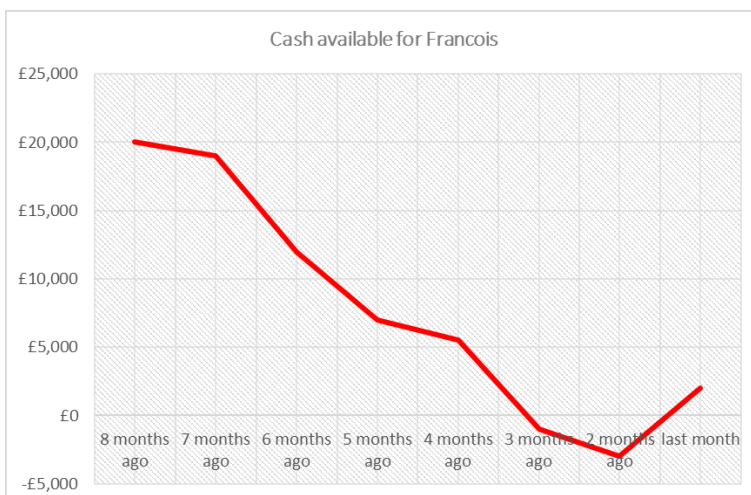
Francois then registered his business and met all the regulations to be able to sell food. This cost him £1,000. He also had to pay his monthly rent of £1,000.

4 months ago: Francois started to find workers for his restaurant such as chefs, waiters, and bar staff. The job adverts cost him £500. He also had to pay his monthly rent of £1,000.

3 months ago: Francois only had £5,500 cash left in his bank. This month Francois started to order all his ingredients and stock items (raw materials / components) from his suppliers. This cost him £3,000. He also had to pay the workers which cost £2,500 in total this month. Although the restaurant wasn't open the workers were busy with training and getting the restaurant ready for the opening night. He also had to pay his monthly rent of £1,000. This month he had to arrange an overdraft with his bank so he could pay his rent on time as he ran out of cash.

2 months ago: Francois finally opened his restaurant. However, as he is an unknown new business, sales were low. During this month he still had to pay for wages, rent and new more ingredients. This month his total costs were more than his total revenue, he made a loss of £2,000. Francois had to ask his bank for a larger overdraft.

Last month: Francois restaurant has started getting more popular with customers due to positive reviews in the local area. For the first time, he finally made more revenue than what he spent on total costs. During this month, £15,000 came into the business (total revenue) and £10,000 went out of the business (total costs), making his business £5,000 profit for the month. Things are finally looking up for Francois.



As you can see from Francois story above and the graph to the left; Francois ran out of cash before his opening night. Luckily, the bank allowed him an overdraft to keep paying bills, or he would have closed his business down before the opening night. Without cash, a business cannot pay its bills (rent, stock, wages, loan repayments, utilities) and may have to close. It does not matter how profitable the business could be in the future; if it runs out of cash now, it could be the end.

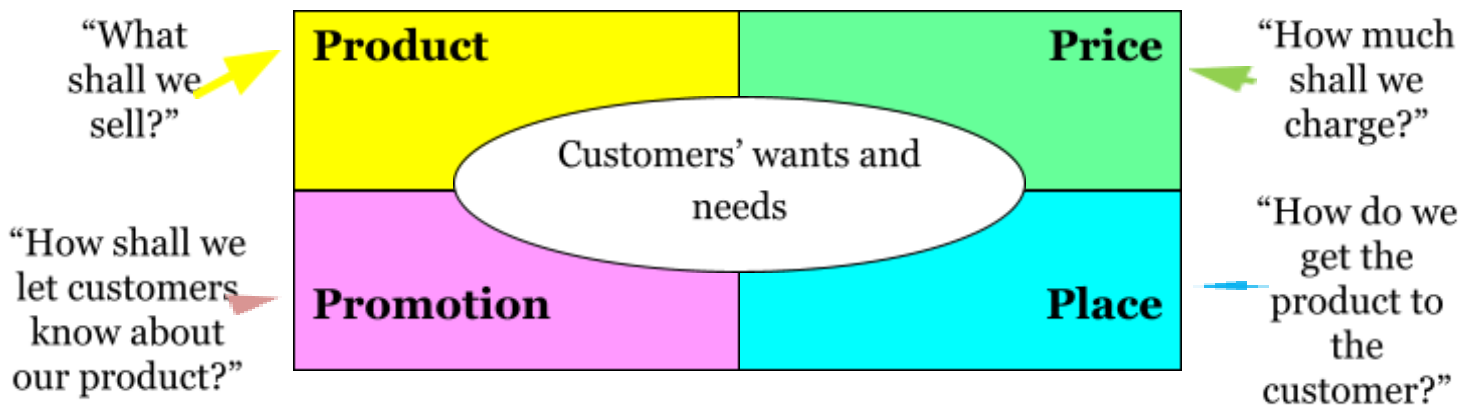
Many entrepreneurs experience cash problems like Francois when setting up and running a small business.

Topic Area 4: Creating a marketing mix to support a product

4.1 The marketing mix elements for a good/service

The key role of marketing is to identify and satisfy customer wants by carrying out market research and designing an effective marketing mix.

The **marketing mix** is the 4 P's. These are the four key elements of marketing to gain as many customers as possible.



In the exam you could be asked to explain or recommend changes to the marketing mix of a product / service / business.

Scenario: Jules runs her own wedding and birthday cake making business from home. She is currently not receiving as many orders as she would like. Below are key details of Jules marketing mix:

Product: Personalised wedding cakes and birthday cakes

Price: On average each cake is sold for £500 (above average prices)

Promotion: Jules relies on social media and customers spreading the word about her business.

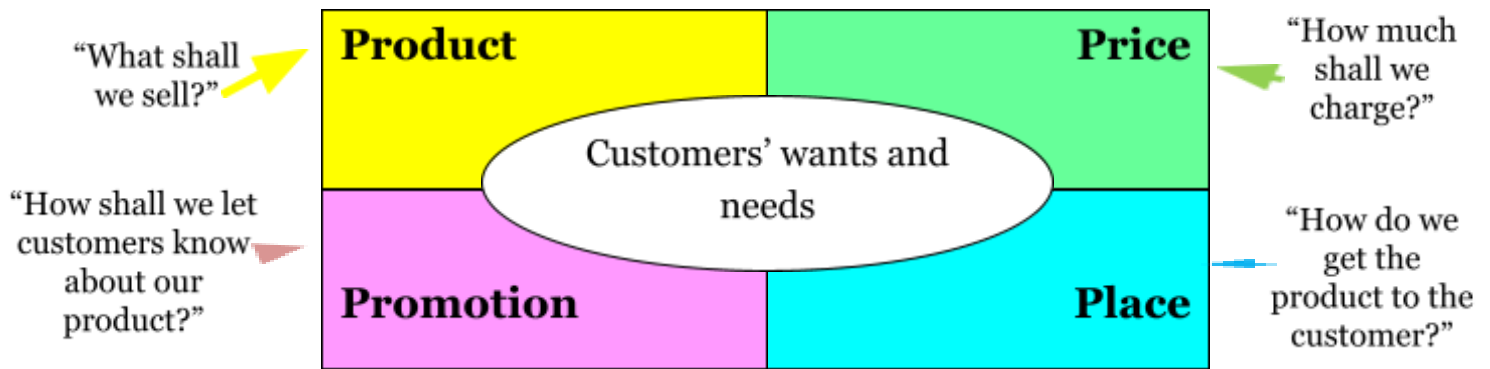
Place: Jules runs her business from home and sells online through social media.

Your go: Activity 12: Put forward recommendations on what Jules could change to her marketing mix to help her gain more sales.

- Consider why these changes will help increase sales
- Consider the possible problems with your solutions

e.g., Jules could do more promotions, such as attending wedding fairs, putting posters in locations that usually hold birthday parties to spread the word for her business. However, this could be expensive and higher costs will mean she would need more sales to break even.

4.2 How the elements of the marketing mix work together



A business could have a fantastic product, but if it is too expensive for the customer (price), sold in the wrong places or nobody knows about it (promotion), the business will not be successful.

Each element of the marketing mix must complement one another and must all be suitable for the customers' needs and wants.

Thinking task:

- Why doesn't Gucci or Ralph Lauren sell its products via Tesco's?
- Why does Apple charge a high premium price for its newest phone?
- Why does Asda always mention its low prices on its adverts?
- Why do car companies release several different models of the same car (e.g. entry level to sport)

Did you get it right?

- Gucci / Ralph Lauren's brand image may look less premium if they sell in a store that promotes itself as value for money.
- Apple also wants to give the impression of high quality and better than the rest so charges premium prices.
- Asda have got lots of other big competitors selling similar goods and services so wants to communicate they are as good / better in terms of value for money.
- Car companies have different car models to target different types of customers and their income levels to maximise sales with the product.

When designing a marketing mix, every element needs to be appropriate for the customer the business is targeting

Your go: Activity 13: You want to start up your own car wash business. Your main target customers are 18 – 21-year-olds who have just passed their test. Design a marketing mix for your business that is appropriate for your target customer segment:

Product: Just washing cars? Or could you start to add other services that young people might like?

Price: What price would be suitable for your target audience. Think about their income level. Your price must be higher than your total cost per unit to break even. Your total cost per unit is £5.

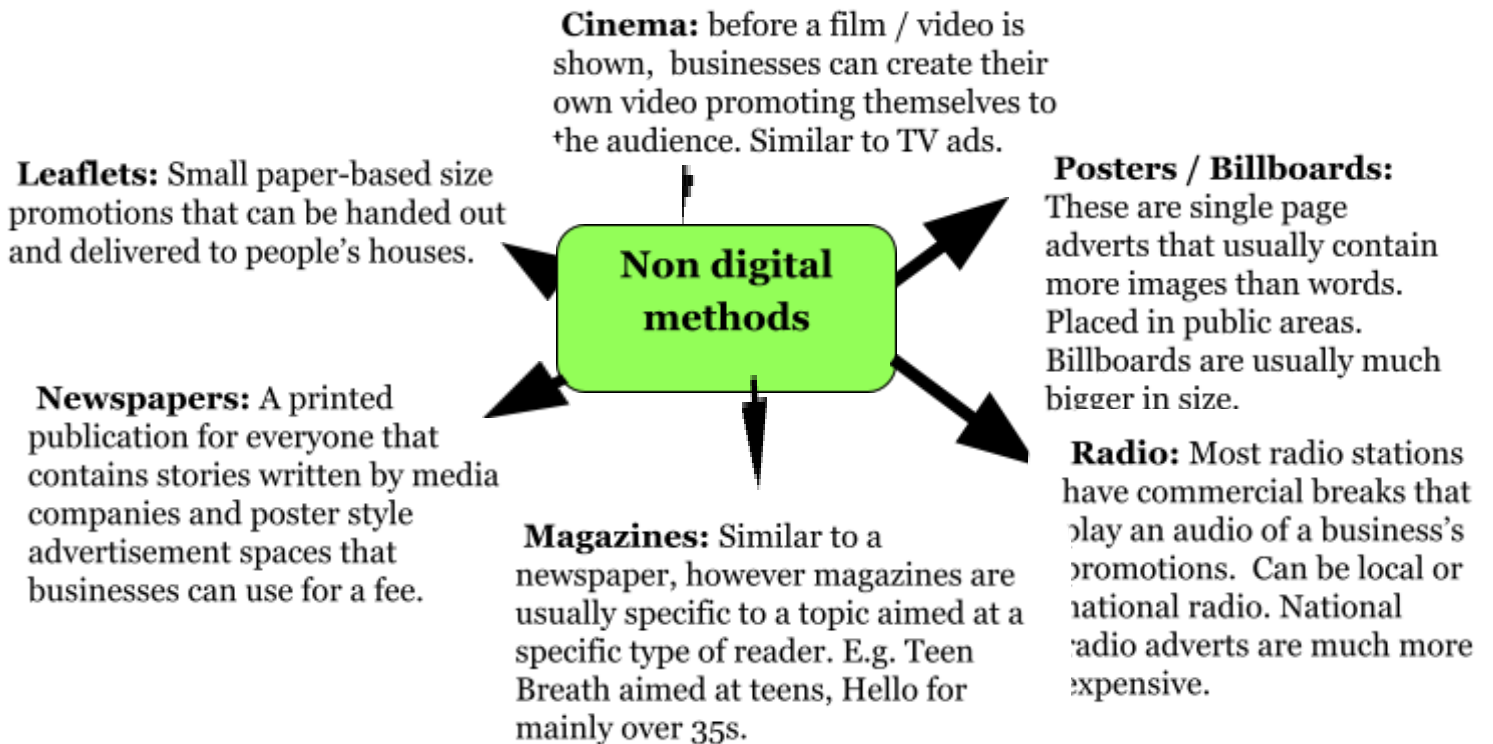
Promotion: Think about the promotions that your target customer group is likely to see and be attracted by.

Place: How are you going to get your business to the customer. Are you going to work from home, as an online company and travel to their houses to wash cars to save costs? Or have a fixed location where your customers travel to? If you have chosen a fixed location, what locations are suitable and more accessible?

4.3 Types of advertising medium used to attract and retain customers and the appropriateness of each

Digital advertising is promoting the business using online methods.

Non-digital advertising is promoting the business using traditional methods (not online).



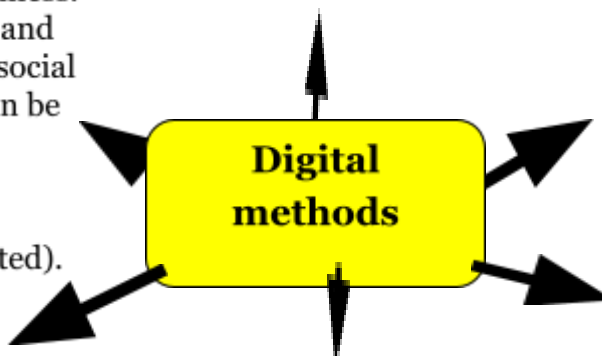
	Advantages of non-digital methods	Disadvantages of non-digital methods
Leaflets	<p>Can be given or delivered to specific people / houses in the area.</p> <p>Usually very cheap to create and produce.</p>	<p>Leaflets contain just pictures and words. They are not interactive, or video based to demonstrate the product in action.</p> <p>Often seen as junk mail and may be thrown in the bin / ignored.</p>
Newspapers	<p>Can reach a very large audience - especially national newspapers.</p> <p>Newspapers can be accessed online and in print.</p> <p>Newspaper adverts and magazine adverts are more trusted by consumers due to the issues of fake news and po-ups that occur online.</p>	<p>More younger people use online sources of media rather than newspapers.</p> <p>People buy newspapers for their stories and not the adverts within them, and usually throw them away after a few days.</p> <p>The quality of a newspaper print is often poor and has low visual appeal.</p> <p>No control of media stories that are written.</p>
Magazines	<p>Most magazines have a specific reader so adverts can be targeted directly to specific audience.</p> <p>Magazines are of a better-quality printed material compared to newspapers.</p> <p>Magazine adverts and newspaper adverts are more trusted by consumers due to the issues of fake news and po-ups that occur online.</p>	<p>Magazines adverts may not be read as the consumers buy the magazines for the stories.</p> <p>Magazines contain just pictures and words. They are not interactive, or video based to demonstrate the product in action.</p>

	Advantages of non-digital methods cont.	Disadvantages of non-digital methods cont.
Radio	Businesses can use a memorable song or jingle that stays with the listener. Local radio adverts can be inexpensive.	The customer can not see the product or service being used in action. Listeners may change the radio channel when adverts are on. National radio adverts can be expensive.
Poster / Billboards	They can be placed in areas where a lot of potential customers may walk or drive past. Can be placed at bus and train stations that people will look at while waiting for their transport.	They contain mainly pictures. They are not interactive, or video based to demonstrate the product in action. People may walk or drive past them fast so do not have time to look at the promotion for it to make an impression on them.
Cinema	Adverts are video based and can demonstrate the products being used. Moving images can be more persuasive than words.	Lots of people may ignore the advert as they are there to watch a film / programme. Can be very expensive to have this type of promotion.

Social media: Using social media sites such as Facebook, Instagram, Twitter, Tick Tok and YouTube to promote the business. Images, videos, comments, and reviews can be displayed on social media. Social media posts can be generated by the business themselves or by paying influencers to promote the business (third party-generated).

Vlogs / Blogs: A vlog is a video published post about a business online, and a blog is a written published post online (like an online diary).

Podcast: These are discussions that people can listen to from their phone or computer. Like radio advertisement.



Websites: An internet page with a specific domain that can provide information about the business and can allow customers to book and pay for items online.

Online banners / pop-ups: These are adverts that are embedded into websites. The use of cookies to track what people have viewed online allows businesses to display the ad directly to people that might be interested in them.

SMS text message: This is when a business sends promotions to the phones of customers in a message form.

	Advantages of digital methods	Disadvantages of digital methods
Social Media	It can be cheap. However, the business may need to employ a social media manager or provide incentives / payments to influencers to promote their brand. Social media allows the business to promote itself in multiple forms (video, pictures, comments, reviews). Customers can see real time experience of other customers and about the business with constant posts being made about the business.	The business has no control over third party generated posts from influencers and the lifestyle they choose to live could negatively affect the brand image of the business. The business needs to get followers or pay influencers lots of money to gain followers for their promotions to be seen. Limited control over comments made about the business on social media.

	Advantages of digital methods	Disadvantages of digital methods
Website	<p>The business can fully control the content on its website and can provide a professional image of the business with a high-quality website design company.</p> <p>Customers are more likely to trust a website and purchase from a website than over social media.</p>	<p>The business has to pay for a website, and it can take a lot of time to keep it updated. The business may have to pay someone to update and manage the website.</p> <p>It can take a while for the website to be popular and show up near the top in search engines.</p>
Online banners / pop-ups	<p>They can be displayed in video or other visual forms to attract customers to look at them.</p> <p>Cookies track the websites that customers visit and so the online banners and pop-ups can be directly targeted to people who have visited similar websites that might be interested in the business.</p>	<p>Lots of customers will find banner and pop-ups annoying when visiting different websites.</p> <p>They can be blocked by customers so they don't appear on the websites.</p>
SMS text messages	<p>Messages are quick to create and can be sent to thousands of people instantly.</p> <p>Sending text messages can be a cheap way of promoting depending on the business phone contract.</p> <p>Links to websites, offers can be sent within the text message.</p>	<p>Customers may ignore the messages and consider it as junk mail.</p> <p>The business will need to get the customer details (their mobile number) to be able to send promotions to them.</p> <p>The message length will be limited to a sentence or two so the business may not be able to fully promote itself.</p>
Podcast	<p>These can be streamed live or pre-recorded and the audience can be invited to ask questions and join in the podcast.</p> <p>They are more personal than written communication as the customer can hear the business being represented than reading a written promotion about the business.</p>	<p>Podcasts are not visual, and the business may not be able to demonstrate the product or service as good compared to video posts. It is similar drawbacks to radio advertising.</p> <p>It can be difficult to attract customers to listen to podcasts as there are so many available to listen to each day.</p>
Vlogs / Blogs	<p>Vlogs allows the business to promote itself using videos so they can demonstrate the products they sell in action.</p> <p>Vlogs can be streamed live, and the business can answer questions to any comments made.</p> <p>A Blog can provide detailed written information about the business and can be accessed easier in buy/ loud areas where its difficult for the customer to watch a video.</p>	<p>Vlogs and Blogs can take a lot of time for the business to constantly update to keep customers updated with the latest information about the business.</p> <p>Blogs are more traditional than Vlogs and do not allow the business to demonstrate its product or service as it is a written form.</p>

4.4 Sales promotion techniques used to attract and retain customers and the appropriateness of each

Sales promotion techniques are used by businesses to gain a short-term increase in sales.



	Advantages of sales promotion techniques	Disadvantages of sales promotion techniques
Discounts	A special offer such as a discount is likely to grab the attention of customers to buy the product now rather than wait for the future to make the purchase.	Any discount is profit lost for the business. Discounts that last a long time will lose its appeal as the discounted price will become what customers expect.
Competitions	The chance to win a free prize may attract customers to buy something or sign up to the competition. Personal details such as the customers email / phone number will then be gained so more special offers can be sent in the future.	Some customers may not trust the competition or believe they do not have a chance to win so they are not attracted by it. The prize might be a very expensive purchase that the business must pay for e.g., a new laptop / car. The competition will only last for a short amount of time before a winner is selected.
Buy one get one free (BOGOF)	Customers will think they are getting a really good deal and so they are more likely to purchase the good / service.	The business loses revenue and profit on one out of every two items sold. At the same time, the business still must pay for the cost of making the product that they give away for free. If BOGOF lasts for a long time it becomes a normal expectation for the customer and not a promotion. A good example of this is Dominos in England where if a customer collects its always BOGOF.

	Advantages of sales promotion techniques continued	Disadvantages of sales promotion techniques continued
Point of sale advertising	<p>Having items for sale at the checkout will catch their eyes and make customers make impulse buys whilst waiting for a checkout to become available.</p> <p>It gets customers to buy item they did not intend on purchasing.</p>	<p>If there are no queues customers may not notice the items.</p> <p>The point-of-sale display must be eye catching.</p> <p>Impulse buys are more likely to be returned for a refund than other goods as the customer did not intend to buy them.</p>
Free gifts / product trials	<p>As its completely free for the customer, they are more willing to try the product.</p> <p>A customer will feel more valued if they receive a free gift from the business and return in the future.</p> <p>Customer opinions on the product trial can help the business make changes and improve the product in the future.</p> <p>Customers will try things they would not usually buy.</p>	<p>The business must pay to produce the gift and provide the sample.</p> <p>The gift / freebee might not be an item the customer is interested in and throws it away.</p> <p>Providing samples does not mean the customer will then buy the product. The customer might just want to try it because it's free with no intention of buying. E.g., customers trying perfume in store to smell nice rather than to make a purchase.</p>
Loyalty schemes	<p>Customers who use the business regularly feel valued and appreciated with a loyalty scheme, so they keep returning.</p> <p>The business can keep track of the number of loyal customers they have.</p> <p>The business can become better at communicating to its loyal customers if they keep track of who they are and keep sending them announcements on new goods / services.</p>	<p>Any loyalty discount is a loss of potential profit initially as the business still needs to pay to produce the good / service.</p> <p>A loyal customer is not always the ones that buys the most often from a business. People who buy frequently from the same business might do it because of their own convenience and not because they are loyal to that business.</p>
Sponsorship	<p>Linking the business with a local event / charity can build positive relationships with the community and attract more customers.</p> <p>It can attract new customers to the business as well as existing customers to buy more.</p>	<p>If the event / local sports team doesn't go as well as planned, it could give the business a poorer reputation. For example, if the local football team lose every match, it wont look good for the business that has their names on the shirts.</p> <p>It can be expensive to sponsor larger events, teams, and charities.</p>

4.5 Public Relations

Public relations involve gaining a positive image within the local community

Product placement: This is when the business embeds its product / service in another form of media rather than having their own promotion. For example, in films, actors are often seen drinking a specific soft drink, or eating a certain brand of pizza. Small businesses will not be able to afford to get its products placed in world-wide movies but could adapt this to local events. Also, small businesses could get try to get local shops to sell their products or position their products near the checkout for impulse buys. They could also get a local social media influencer to talk about the business during one of their videos.

Celebrity endorsements:
When a business pays for a local celebrity to use / post / tweet about the product or gets the celebrity to attend a public event hosted by the business.



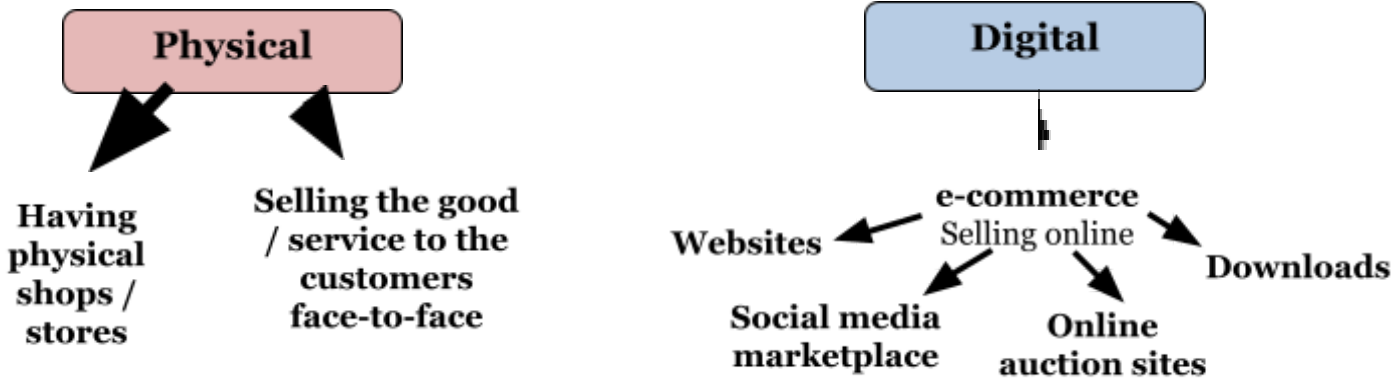
Press / media releases: This is when a local newspaper / broadcasting company publishes a story about the business. For example, a story about the opening day/night of the business or if the business has sponsored a local charitable event in the area.

	Advantages of Public relations techniques	Disadvantages of public relations techniques
Press / media releases	<p>Its free advertising as its up to the local newspaper whether they would like to publish the story or not.</p> <p>A newspaper is a trusted source of information for the public and will believe the story in the newspaper about the business.</p>	<p>There is no control of how the local newspaper publishes the story.</p> <p>If the headline is poorly written the story might get ignored.</p> <p>Although its free it might require time and effort to try and get the newspaper to publish the story.</p>
Celebrity endorsements	<p>A well-liked celebrity will attract customers to copy that celebrity and buy goods and services from the business.</p> <p>Celebrities are successful role models for many people, and it will give a positive image of the business if they are associated with them.</p>	<p>It can be very expensive to pay a celebrity to promote the good / service.</p> <p>If a negative news story is released about that celebrity, it could also damage the businesses reputation as the business is associated with that celebrity.</p>
Product placements	<p>The business does not have to create their own promotion all by themselves and instead use other businesses people to help promote the business.</p> <p>Placing products in eye catching areas or near checkouts can make customers buy the product</p>	<p>Product placement in films / shows can be very expensive for the business as they will have to pay the film / show producer a high sum of money.</p> <p>It could also cost a lot of money to get social media influencers to wear / talk about or use the businesses product.</p>

	when they didn't intend to which will increase sales.	Customers may ignore the product placement and be more interested in the movie / influencer.
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4.6 How businesses sell goods / services to the consumer

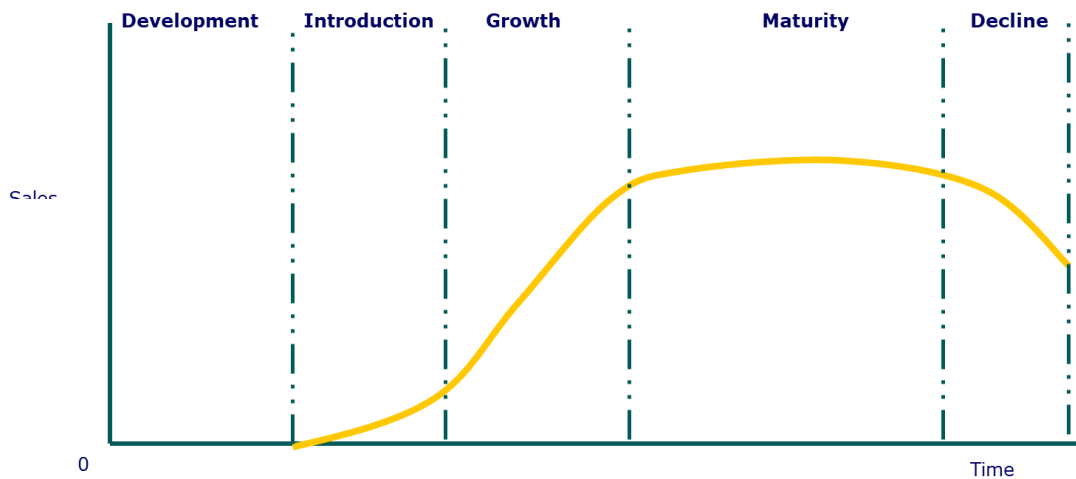
Traditionally customers used to visit physical stores face to face to buy goods and services. These days more and more goods and services are bought via digital methods online.



Physical			Digital		
	Advantages	Disadvantages		Advantages	Disadvantages
Selling via a physical store face to face	Lots of services cannot be sold online e.g., a haircut, so they must have a physical store for customers to visit.	It can be expensive to rent a store in a central busy location.	Selling via a website	It is convenient for customers as they can purchase items and get them delivered home without needing to visit a store.	It can be expensive to create and maintain a website and keep it up to date.
	The elderly may prefer coming into a store as they are not as used to using technology.	It could be less convenient if the customer has to visit the store to buy the product if it could have been sold online.	Selling via social media marketplace	Facebook marketplace is free to sell items.	Less trustworthy than selling through websites or stores. Lots of competition from other businesses selling items online.
	Selling face-to-face allows the business to see customer responses, ask for feedback and respond to questions.		Selling via online auction sites	The auction (if well-known) will have lots of people ready to bid and buy products, so the business doesn't have to do as much of their own promotions.	The auction website / business will take a percentage of the selling price that customers pay. Lots of competition from other businesses also trying to sell their products online.
	Having a physical presence helps promote the business as its branding is displayed above the store.		Selling / offering downloads rather than physical copies	The business does not have to pay for the cost of making the product or printing its	Not all products can be downloaded e.g., food items.

4.7 Product life cycle

The product life cycle is a diagram that shows the different stages of sales that products achieve, from when they are developed and launched into the market until they are no longer sold.



Development: When the product is being designed and tested before its launched.

Introduction: When the product is first put onto the market to be sold.

Growth: When sales start to rise and the product becomes more popular.

Maturity: An established product where sales are high, but sales growth starts to slow.

Decline: When the product becomes old, outdated and sales start to fall.

In your exam you could be asked to identify which stage of the product life cycle the product is in based on sales data.

Sales of Apple products over different years

	2011 sales per year	2012 sales per year	2013 sales per year	2014 sales per year	2015 sales per year	2016 sales per year	2017 sales per year	2018 sales per year	2019 sales per year
i-Phone UK sales	3,2m	3.8m	4.5m	5.3m	6.4m	7.3m	7.5m	7.4m	7.3m
i-Pod global sales	42.6m	35.2m	26.4m	14.4m					
Apple music users	Apple music didn't launch until 2015				11m	20m	27m	40m	50m

Activity 12: Using the data in the table above:

- What stage in the product life cycle was the i-phone in during 2015?
- What stage in the product life cycle was the i-phone in during 2017?
- What stage in the product life cycle was the i-pod in during 2014?
- What stage in the product life cycle was apple music in during 2014?

e) What stage in the product life cycle was apple music in during 2019?

(Answers are on the next page)

Activity 12: answers

- a) In 2015 sales for the i-phone were still growing so it was in the growth stage.
- b) In 2017 sales growth is slowing down which means the i-phone is now in maturity.
- c) In 2014 i-pod sales continued to fall suggesting it was in the decline stage.
- d) Apple music was not launched until 2015, so in 2014 it was in the development stage.
- e) In 2019 Apple music users grew by 10 million suggesting they are in the growth stage.

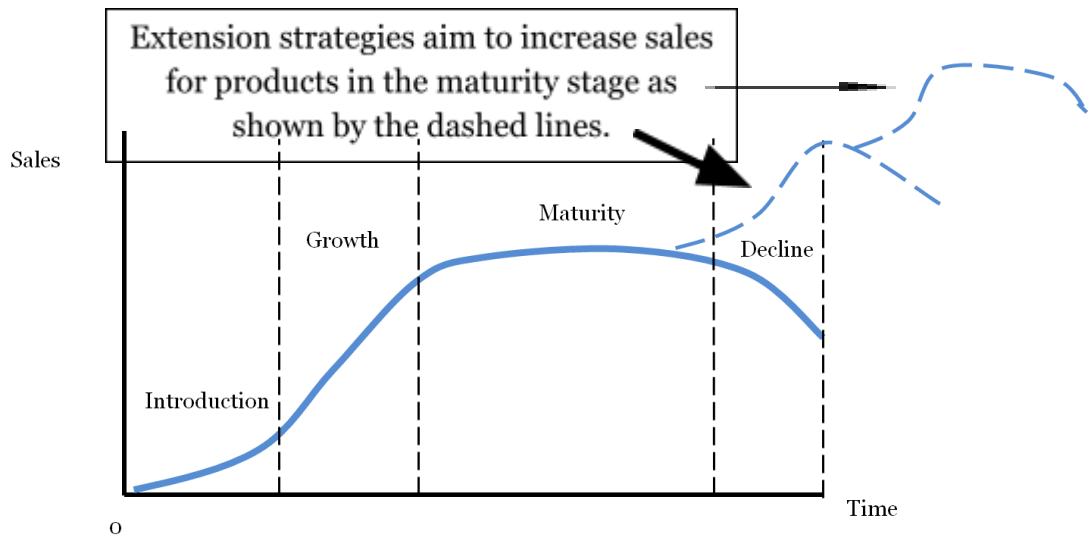
Marketing activities of products in different stages of the life cycle once launched

Stage	Introduction	Growth	Maturity	Decline
Sales	Sales are low as the product has only just been released.	Sales are increasing as the product is becoming popular.	Sales are at its maximum, but there is no further room for sales growth.	Sales are falling as customers switch to newer products.
Amount of promotion of the product	Lots of promotion is needed to make the product known to customers.	Lots of promotion is needed as the product is still new.	Small amount of promotion is needed as the product is now well-known.	Promotion is very low as the products life is coming to an end.
Prices	The starting price depends on the product. If it is a unique high-quality product the business may set a high price. If it's a product that is similar to lots already for sale, the business may set a low price to offer better value for money.	The price will remain similar to the introduction stage.	If the product was originally unique, by now other businesses may have brought out their own version, so prices may fall due to competition. As the product starts to get old, the business may have special offers and discounts to attract people to keep buying it.	Prices may fall further to try and stop the product's sales declining.
Profits	The business is making a loss at this stage due to the cost of development and promotion.	Sales start to rise rapidly so the product is likely to break even and start making some profit.	Profit levels are high due to high sales and fewer costs as the business does not need to promote established products as much.	Profit levels are falling, and the business will stop selling the product when they start making losses on it.

	Sales are slow and do not cover the costs.			
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4.8 Extension strategies for products in the product lifecycle and the appropriateness of each

Extension strategies are ways in which a business tries to extend the product's life, to stop it from reaching the decline stage of the cycle.



Extension strategy	Description	Advantages	Disadvantages
Advertising	Sections 4.3 4.4 4.5 on pages 28 to 33 of this revision guide explains the different types of advertising businesses can use to help increase sales and the advantages and disadvantages of each method.		
Price changes	Reducing the price of the product may help increase sales	A reduction in price or sales promotion (pages 31 to 32) will attract customers to buy the product as they might think they are getting value for money.	This will only help boost sales in the short term when prices are initially reduced. The price still needs to be above the total cost per unit to allow them to make profit.
Adding value	This means improving the specification of an existing product such as adding new features to it. Coca Cola have done this by adding different flavours to its Diet Coke and Coke Zero products.	Customers will be attracted to try the new improved products and are more likely going to buy it. This may increase sales when the product is in maturity.	It may cost a lot of money and time to change the product to make it better, so the sales may not cover the increased costs.
Exploration of new markets	This means selling the product in a new geographical area (e.g., a new region or country) or target a different market segment. Lucozade originally was a drink for people who felt unwell, now they target the sport lifestyle segment.	Offering the product / service to new customers may help increase sales if their current customers are bored with the product. It can stop the product / service going into decline.	It can be very costly to expand the business into new geographical areas. People in different areas may have different needs and wants.

			It will cost the business a lot of money to re-brand the product for a new segment.
New packaging	This means changing the look of the product, so it looks different.	Customers are more likely to notice a product if the look of it is different. They might be attracted to buy it again.	The actual product does not change, only the look of it. After a short while customers will not notice this change and be aware that it's the same product.

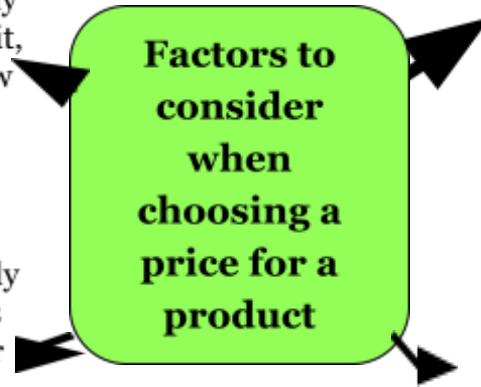
Types of Extension Strategies and their appropriateness

4.9 Factors to consider when pricing a product to attract and retain customers

A business must consider a number of different factors when deciding on what price to charge for their product

Income levels of target

customers: Customers won't buy the product if they cannot afford it, so the price needs to consider how much income customers have.



Cost of production:

To make a profit the business needs to make sure the prices are higher than the total cost per unit. Pages 12 & 13 covers how to calculate total costs and total costs per unit.

Price of competitor

products: A business is unlikely to be as successful if their prices are way higher than very similar products sold by other businesses. If there are no other similar products the business may be able to charge higher prices.

Stage of the product life

cycle: As the product reaches maturity and decline the business may start to reduce prices in order to help boost sales and extend the products life cycle.

Activity 13: You are opening your own dine-in burger restaurant and you want to become the value for money dine-in burger restaurant in the area. Using the research data below recommend a suitable price for your standard hamburger and chips meal:

Primary research survey results	Customers would be prepared to pay between £8 to £12 for a hamburger and chips meal due to current income levels.
Secondary research on competitor websites	Other burger restaurants currently sell similar means for between £12 - £20
Cost of production	You have calculated that the average total costs of selling a hamburger meal with chips is £9

Product life cycle information	You are in the development stage as you are opening your restaurant in two weeks.
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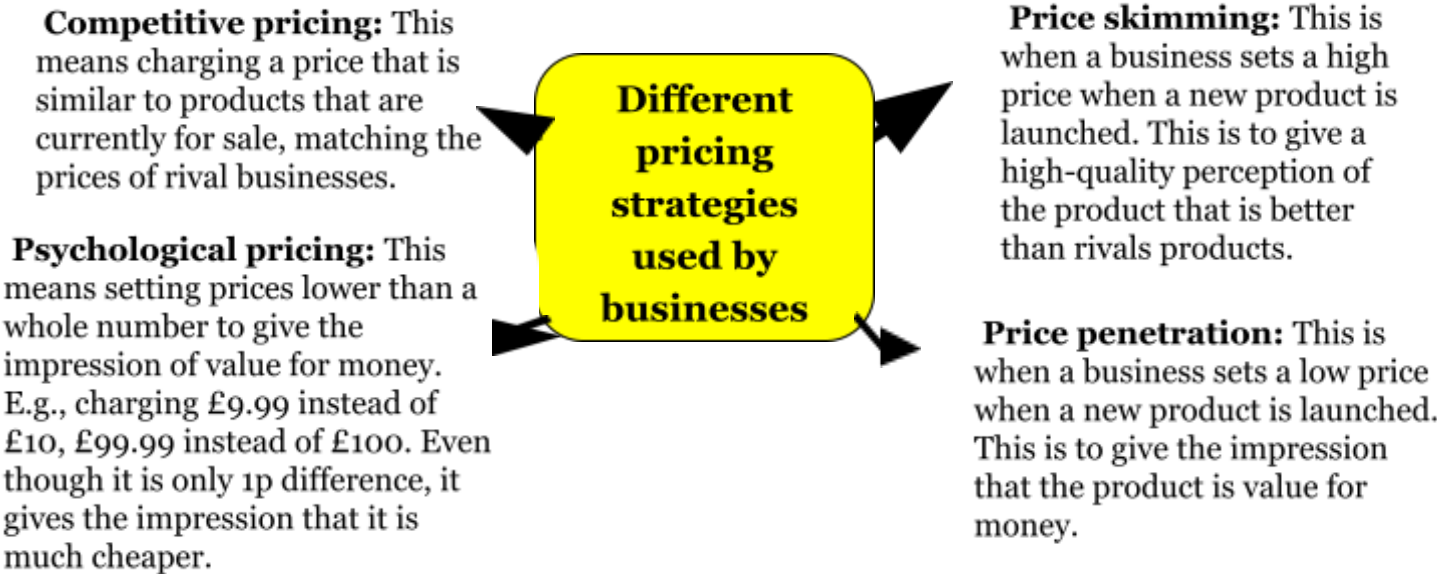
(Answers are on the next page)

Activity 13: answers

- You cannot sell for £9 or less as you won't be able to make profit.
- You should not charge more than £12 because your customers will not be able to afford it.
- You want to offer value for money which means having prices lower than competitors, so a price range between £10 - £11 appears most appropriate.

4.10 Types of pricing strategies and the appropriateness of each

A pricing strategy is the decision on what type of price to charge



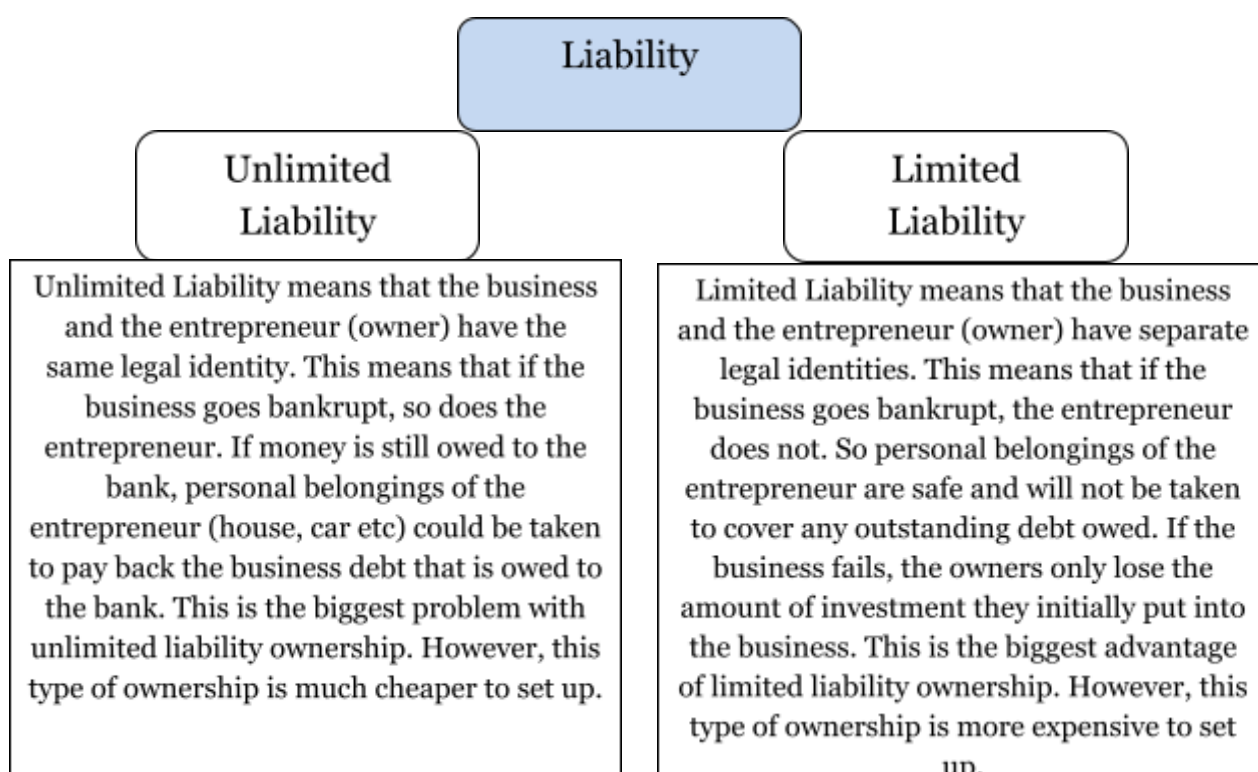
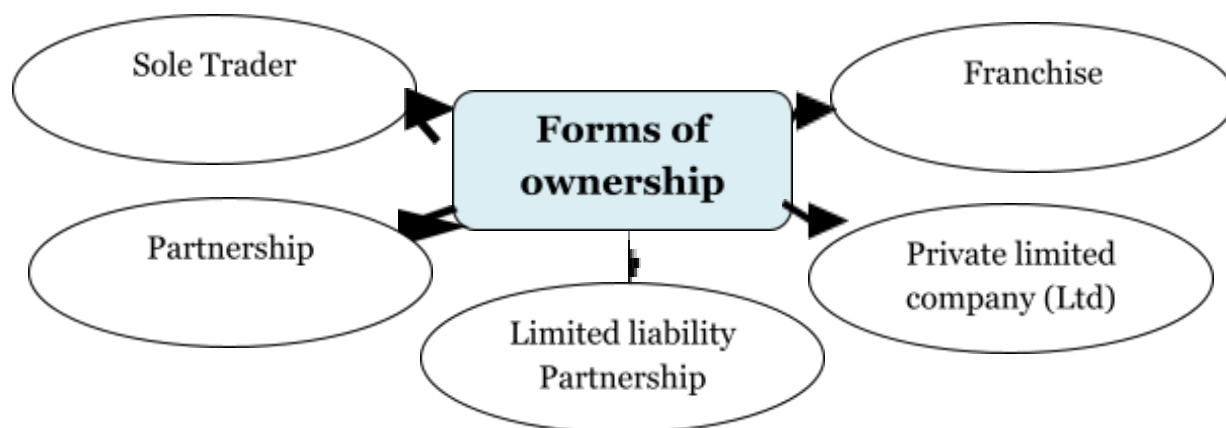
Pricing strategy	Advantages	Disadvantages
Competitive pricing	Adapting similar prices to competitors means that it won't put off customers as it's a price they will be willing to accept and pay.	The price does not make the business stand out as it is not cheaper or more expensive than similar businesses. A cheaper price might offer more value for money, while a higher price may give off the impression that it's a better quality good / service.
Psychological pricing	This can make the product appear better value for money even though its only 1p cheaper than nearest whole number. £99.99 feels much cheaper than £100.00 because its two and not three digits to the left of the pence column.	Businesses will need to keep lots of spare pennies as change as customers are not paying rounded numbers.

		Customers may prefer paying whole number prices as they may not like to receive change.
Price skimming	A high price gives off a high-quality brand image of the product. A high price means that higher revenues and profits are made per sale.	High prices can put off customers who may wait until the product is older and cheaper (in the maturity stage of its life) before purchasing it.
Price penetration	It is a good way to break into the market for a new business by offering cheaper prices than competitors. Being cheaper creates a unique selling point.	Low prices means that very little profit will be made from each sale. It could also give the business a lower quality brand reputation if customer think it's too cheap.

Topic Area 5 : Factors to consider when starting up and running an enterprise

5.1 Appropriate forms of ownership for business start-ups

Forms of ownership determine the amount of owners a business is allowed to have, the liability of the owners, and the ability to raise finance from investors.



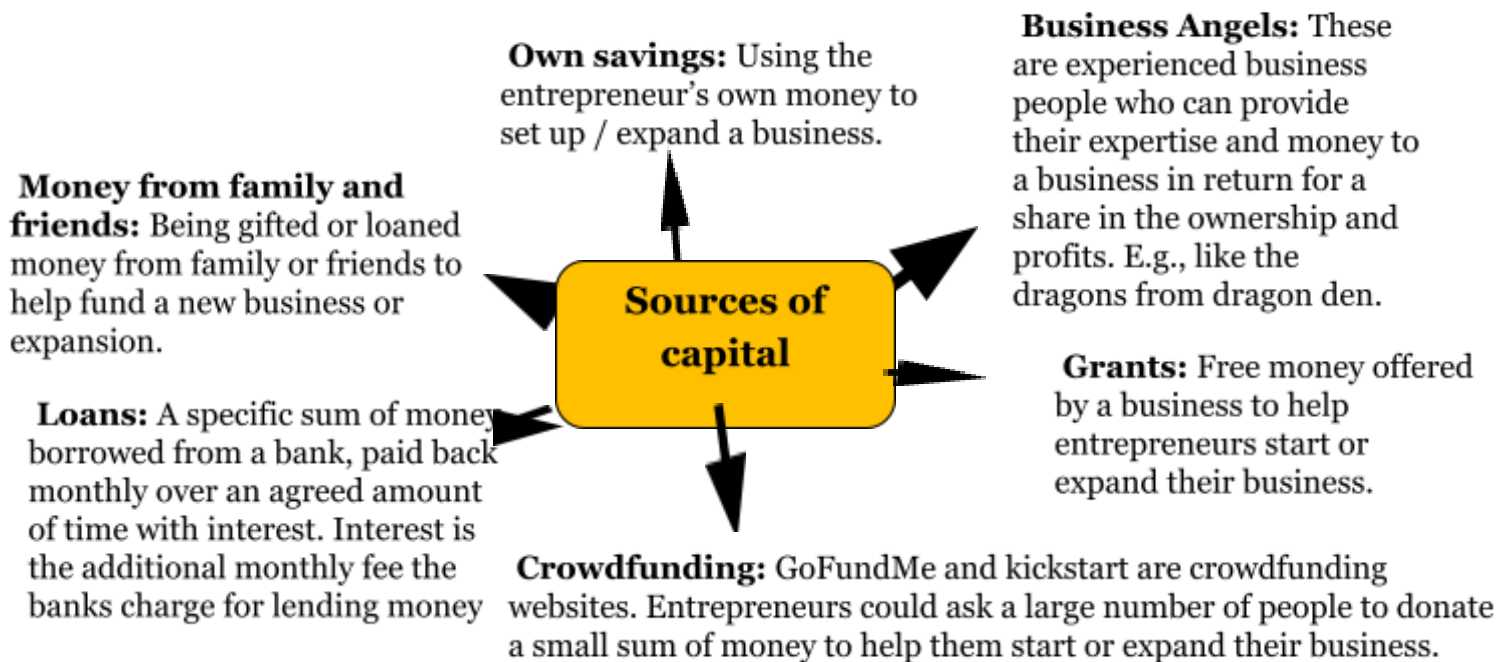
In your exam you need to be able to understand the features of the above different types of ownership, their liability, available sources of finance and the pros and cons of choosing each type of ownership. The next page will explain these.

Forms of ownership	Features of each type of ownership	Liability	Advantages	Disadvantages
Sole Trader	When there is one registered owner of a business with unlimited liability.	Unlimited	One owner means that they keep all of the profits and makes all of the decisions for the business.	Unlimited liability (page 40). One owner will mean there is a smaller amount of money being put into the business. Also, one owner means that the workload is higher compared to having multiple owners.
Partnership	When there are two or more registered owners of a business, with unlimited liability.	Unlimited	More owners means that more money can be raised between each partner to fund the business. Workload is also shared between each partner.	Unlimited liability (page 40). There could be arguments and conflicts over decision making if they disagree, as well as having to share the profit between each partner.
Limited liability Partnership	When there are two or more owners registered of a business, but with limited liability.	Limited	More owners means that more money can be raised between each partner to fund the business. Workload is also shared between each partner. The extra benefit compared to Partnerships is that this ownership has the benefits of having limited liability (page 40)	There could be arguments and conflicts over decision making if they disagree, as well as having to share the profit between each partner.
Private limited company (Ltd)	Ltd's can have one or more owners. This legal structure allows shares to be sold to raise more money for the business, but shares can only be sold to family and friends as they are not listed on the stock market. The term "limited" in the key term shows they have limited liability.	Limited	Limited liability (see page 40). The current business owners can add more owners into the business by selling shares to members of their family or friends. Shares cannot be sold on the stock market to strangers who may have different motives to become an owner of a business.	It is a more expensive legal structure compared to sole trader and partnerships due to having limited liability. Ltd's cannot sell shares on the stock market to the general public so may not be able to attract new investors very easily.
Franchise	A Franchise is a where the business allows willing entrepreneurs to set up one of their stores for them. The cost of setting up is split between the business	Can be either – but more often is limited	The business does not have to raise all the money for each new store as local entrepreneurs wanting to set up their own store of the business has to share the start-up costs. This means it is a cheaper and	The business does not keep all the profits for each store and must split these with the local entrepreneur running the store. Local entrepreneurs are owners of their own store, but under the brand name of the whole business and could make

	and the entrepreneur and profits are split. Lots of well-known businesses are Franchises. E.g., McDonalds, KFC, Domino's pizza.		quicker way of growing due to sharing costs with local entrepreneurs. Local entrepreneurs must abide by all the rules as each store e.g., McDonalds needs to be the same in the area. Most Franchises have limited liability (page 40)	decisions or mistakes that could give the whole business a bad reputation. E.g., if one store McDonalds franchise is unhygienic and gets bad media coverage, customers may be put off visiting other stores in other towns / cities. Local entrepreneurs need to be controlled so they do not make mistakes that could give a bad name to the whole business.
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5.2 Source(s) of capital for business start-ups and expansion

When starting up a new small business or expanding a business (e.g., opening up a new store in a different location), the business owner(s) (entrepreneurs) will have to seek capital (money) to be able to fund the start up / expansion. This section considers the advantages and disadvantages of different sources of capital (finance/money).

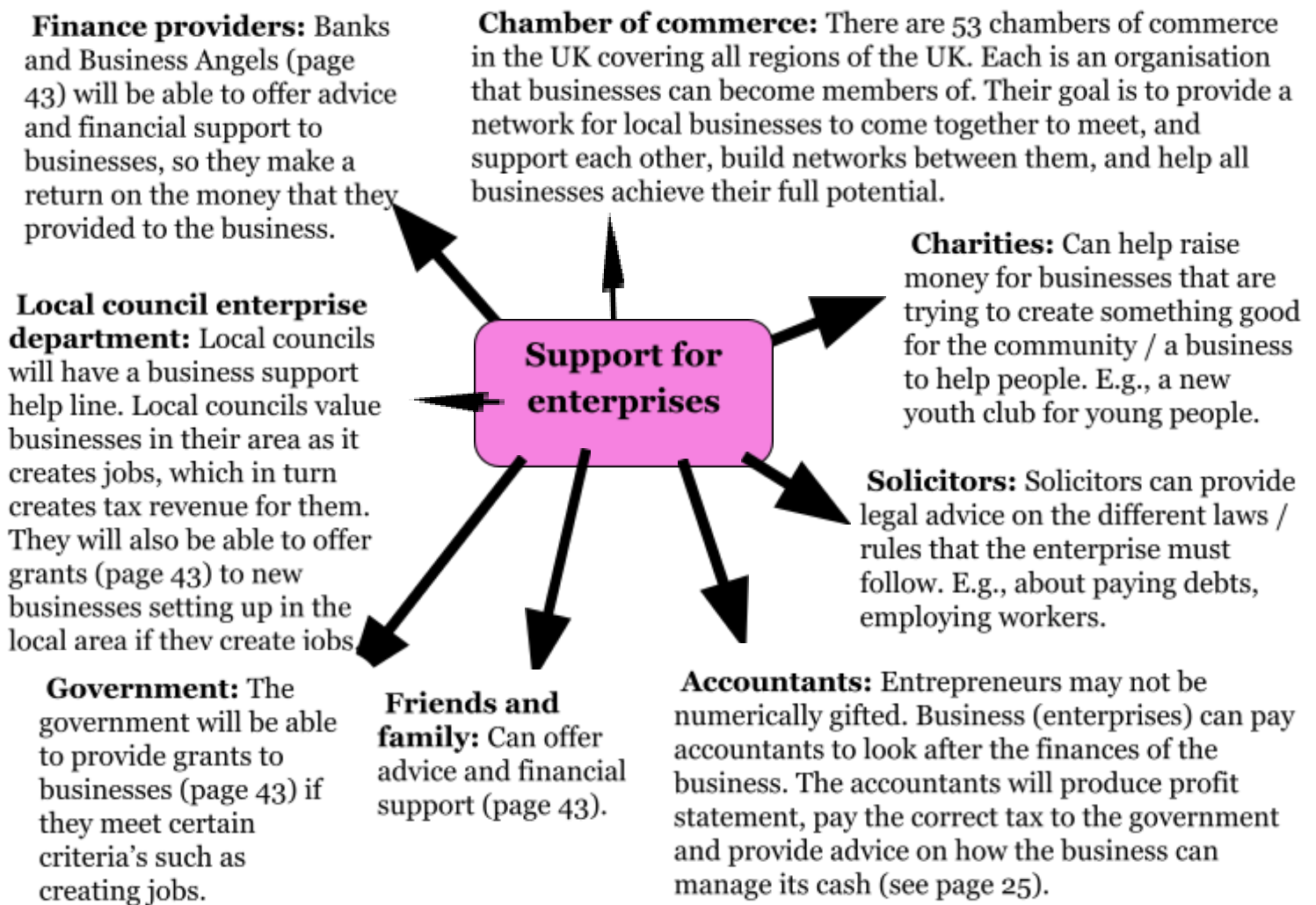


	Advantages of each source of capital (finance)	Disadvantages of each source of capital (finance)
Own savings	There is no additional interest or charge for using the entrepreneur's own money. With no extra charges (costs) there is a greater chance of breaking even and making a profit.	The entrepreneur may not have any savings, or not enough savings to help fund the full cost of the start-up / expansion. If the business fails, the entrepreneur loses all their savings.
Family and friends	If the money is gifted, this also means there is no additional interest or charge as the entrepreneur does not have to pay it back. If the money is loaned, it is likely that the family member or friend wont charge additional interest, or not as much as the bank, lowering costs for the business.	Family and friends might want to be involved in the business decisions or may want to become a part-owner of the business. There could be arguments or damages to relationships with family and friends if the entrepreneur cannot pay them back (if it is a loan).

<p>Loans</p>	<p>The bank will be able to provide the exact amount required for the start-up / expansion.</p> <p>The entrepreneur can agree regular fixed monthly repayments over a fixed period that suits both parties. This helps the entrepreneur plan for their future spending and payments.</p> <p>The business can gain money without losing shares / ownership of their business.</p>	<p>The banks will charge additional interest on top of the loan. E.g., a £10,000 loan with a 10% interest rate (charge) means that the business will have to pay back £11,000 (an extra £1,000 more than what was borrowed).</p> <p>If the business cannot pay back the loan it could lead to bankruptcy. If the business has unlimited liability (page 40) personal belongings could be taken by the bank to get their money back.</p>
	<p>Advantages of each source of capital (finance) continued</p>	<p>Disadvantages of each source of capital (finance) continued</p>
<p>Crowdfunding</p>	<p>As it is donations there is no requirement to pay anyone back. So, it is essentially free money given to the business.</p> <p>It also creates publicity on crowdfunding websites to people who could be potential future customers.</p> <p>The business will be receiving money without losing ownership / a share of their business.</p>	<p>There is no guarantee that people will donate to the business.</p> <p>Crowdfunding is a lot of work as the business needs to spread the word to attract people to donate.</p> <p>Most crowdfunding pages are for raising money for good causes or businesses that want to create something good for the community. Business that does not set-up for these reasons may not get donations.</p> <p>If the business fails, it will damage the entrepreneur's reputation as people donated money to help and may keep checking on how the business is performing.</p>
<p>Grants</p>	<p>Grants do not need to be paid back.</p> <p>With no extra charges (costs) there is a greater chance of breaking even and making a profit.</p>	<p>Only certain businesses can obtain grants. The government will only tend to offer financial support if they think the business will be good for the community and create jobs.</p> <p>Applying for grants can be a lengthy process.</p> <p>The entrepreneur might not be able to get all the required amount from a government grant, and only a small percentage of the amount needed to fund the start-up / expansion.</p>
<p>Business Angels</p>	<p>Experienced (business angels) business people such as the dragons from dragons' den will be able to offer their expertise as well as money to help the company start-up / expand.</p> <p>The business angels may have useful contacts that can support the business start-up / expansion. For example, they may know the boss of a large retailer and persuade them to sell the business's new products.</p> <p>The business does not get into any debt (unlike getting a loan). It is the risk of the business angel to invest their own money in the hope of a future profitable return.</p>	<p>The business angels will want a share (part-ownership) of the business. This means that they will get a share of the profits and may want to be involved in the decision making of the business.</p> <p>If the business becomes a success, the business angels will likely receive far more profits than what the entrepreneur may have had to have paid in additional interest to the bank with a loan.</p>

5.3 Support for enterprises

When starting up a new small business (enterprise), the entrepreneur may not have the required level of knowledge or understanding about how to start-up and make a business successful. This last section covers the available support that entrepreneurs can use to help them with their business.



	Advantages of each source of support	Disadvantages of each source of support
Finance Providers	Banks and Business Angels are taking risks by provided money in the form of a loan (bank) or investment (business angel) in the hope of getting a higher return. Therefore, they will provide advice on all areas of the business. However, they will be mainly concerned with being paid back so their advice may focus on managing the finances in the business.	<p>Page 43 explains the disadvantages of using banks and business angels. Banks will only offer support if the business takes out the loan, and it will be paid back with additional interest.</p> <p>Business angels will want a share in the business ownership, profits and in the decision making</p>

	Business angels can also offer their expertise and contacts as they are business people, which can help the business make better decisions to help them become successful.	before they are willing to offer financial support and their expertise.
Local council enterprise department	Local councils can provide lots of advice about the local area that the business is in. They will be able to offer free advice on meeting different laws, employing workers, how to obtain funding such as government grants and useful contacts in the local area to help the business start-up.	They might only be able offer advice and brief support because all businesses in the area will use their services. They may not have specific areas of specialities (e.g. finance) as they provide general support.
	Advantages of each source of support	Disadvantages of each source of support
Government	Businesses can apply for a government grant (page 43). This is free money that does not have to be paid back that can help fund some of the money needed to start the business.	The grant may only cover a small amount of the start-up costs for the business. It can be a lengthy process when applying for a grant. Grants may not be available for all businesses (see page 43).
Friends and family	They may be able to gift or loan money to the entrepreneur. The entrepreneur may or may not need to pay the money back. If they do have to pay the money back it will usually be without additional interest (that banks charge).	Dependent on their experience level they may not be able to offer advice (unless they own their own business). They may try to get involved in the decisions of the business. Relationships could be affected if the entrepreneur cannot pay money that is owed to family / friends.
Accountants	These are fully qualified people who can complete all of the financial tasks involved in running a business. Entrepreneurs who lack high levels of numeracy skills can still set up and run a business as the accountant will take care of those tasks.	Accountants are very expensive and will charge for use of their services. Accountants may try and get involved in the decision making of the business if they feel the entrepreneur is not managing the finances very well.
Solicitors	Solicitors will help the business with any legal contracts such as buying a property. They will be able to support with writing legal contracts such as employment contracts when hiring workers. Solicitors will be able to provide legal advice and represent the business in court. For example, if customers owe the business money but are refusing to pay, or if landlords are trying to evict the entrepreneur from the premises.	Like accountants' solicitors are very expensive and will charge for their services. Solicitors will have lots of clients at any one time so it can take a while before they are able to help the entrepreneur with legal queries and actions.
Charities	Charities raise money for good causes. Businesses that exist to help people in the community can receive this money from people donating to charities. Charities can raise positive awareness of the business in the local area to help promote it and attract customers to the business.	The charity may expect the business to donate to the charity in the future to help support good causes in the future. Not all businesses could get support from charities. It depends on the type of business and their aims. E.g., if they are existing to help people in the community.
Chamber of commerce	Being a member of the chamber of commerce means that the entrepreneur is in a local	

	<p>network of enterprises. By joining together with other businesses in a network allows entrepreneurs and enterprises to make links, deals, and provide advice to one another.</p> <p>The support will come from other business owners who may have experienced similar difficulties currently experienced by the entrepreneur.</p>	<p>Businesses have to pay a yearly subscription fee to become a member of the chamber of commerce network.</p> <p>As each network is made up of lots of businesses, there is no guarantee that each new business will be able to make links or deals with current businesses within the network. It depends on what type of businesses are already apart of the network.</p>
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Exam preparation

The exam duration will be 1 hour and 15 minutes (75 minutes). It has two sections:

- Section A (10 marks)
 - 10 multiple choice questions, each worth 1 mark.

- Section B (60 marks)
 - You will be provided with a business scenario, and you will need to apply your answers to each question to this scenario. An example scenario could be a business looking to sell personalised printed t-shirts in your local area. Your answers must link to and be appropriate for the specific business.
 - You will be asked to answer short, medium, and extended response questions that range between 2 and 8 marks each.
 - The last question in the paper will be an extended response 8-mark question and this will only assess areas from topic 4 on marketing (pages 26 – 39 in this revision guide). This question will test your ability to analysis and evaluate. This means you must argue the case for two sides of the argument and then make a fully justified decision.
 - For example, you may be asked to compare the advantages and disadvantages of a specific non-digital medium of advertising against a specific digital medium of advertising. Then you will need to make a fully justified decision on the best medium of advertising that the actual business in the scenario should choose.

- Total marks for the paper are 70 marks

- You should aim to answer 1 mark every minute (70 marks in 75 minutes). So, a 1-mark question should take you no more than 1 minute. A 4-mark question should take you 4 minutes (and so on). This should leave you a little over 8 minutes to answer the final 8 mark extended response question.

Throughout the exam you will be assessed on the following performance objectives:

- **PO1: Recall knowledge and show understanding of enterprise and marketing concepts**
 - Between 26 - 30 marks of your exam will assess your ability to demonstrate understanding of the topics. This includes key terms, formulas, and stating advantages and disadvantages of the different business topics.

- **PO2: Apply knowledge and understanding of enterprise and marketing concepts**
 - Between 26 – 34 marks of the exam will assess your ability to apply your knowledge and understanding (PO1) to the scenario in the exam paper. This means that you must link your understanding of the topics specifically to the business scenario in the exam. For example, calculate the break even for the business scenario using the data provided. Example 2: Explain one benefit of using price skimming for the specific business in the scenario (e.g., a business selling personalised t-shirts, a higher price may give the impression of a higher quality fabric).

- **PO3: Analyse and evaluate knowledge, understanding and performance**

- Between 9 – 14 marks of the exam will assess your ability to analyse and evaluate your knowledge and understanding (PO1).
- Analysis means to develop your points in more detail, e.g., explain why the advantages are good for the business, and why the disadvantages are bad for the business. Any question that asks you to explain or analyse will require you to develop your points further explaining the impact of the pros / cons on the business.
- Evaluation means being able to make a final justified judgement. This will only be assessed in the last question. However, to be able to make an effective judgement, you first must analyse in detail the pros and cons for each option before being able to make a justified judgement.