

# BELLAHOUSTON ACADEMY



# National 4/5 Business Management



# S3 HOME STUDY PACK

## Business Management – Business in Action

### What is a business?

A business is a particular type of organisation – one which involves people and resources in the making of a good or the providing of a service. All businesses have a name, a set of aims they wish to achieve, an image, resources and rules.

### Needs and Wants

We buy the goods and services provided by a range of businesses – we are called consumers. We buy these goods and services to satisfy needs and wants.

In order to survive we all have basic needs. These include:

Food/Water



Clothing



Shelter



Once these needs have been satisfied individuals always look for and want more in order to make their lives more comfortable and enjoyable. For example we do not **NEED** a new iPad to survive, we just **WANT** it. Perhaps we have seen it advertised on TV or a friend has one and so we would want one also.



Holidays



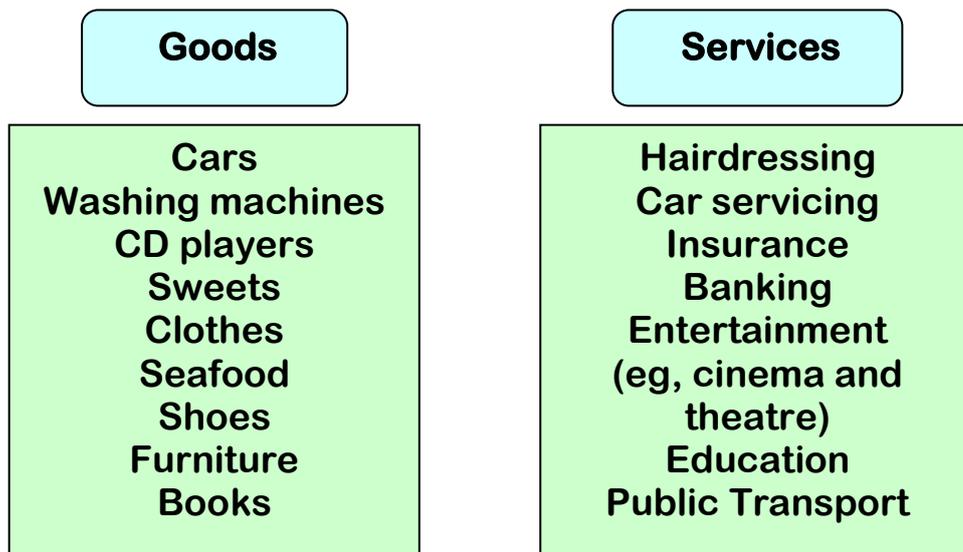
Cars



Ipad



Businesses exist to look after or satisfy these **NEEDS** and **WANTS**. They make goods such as food products, shoes, clothes and electrical goods. Some businesses exist to provide services like transport, hairdressing, banking, fast-food take-away and holidays.



Goods are tangible, which means they can be seen and physically touched. Services are intangible, which means that they cannot be seen or physically touched

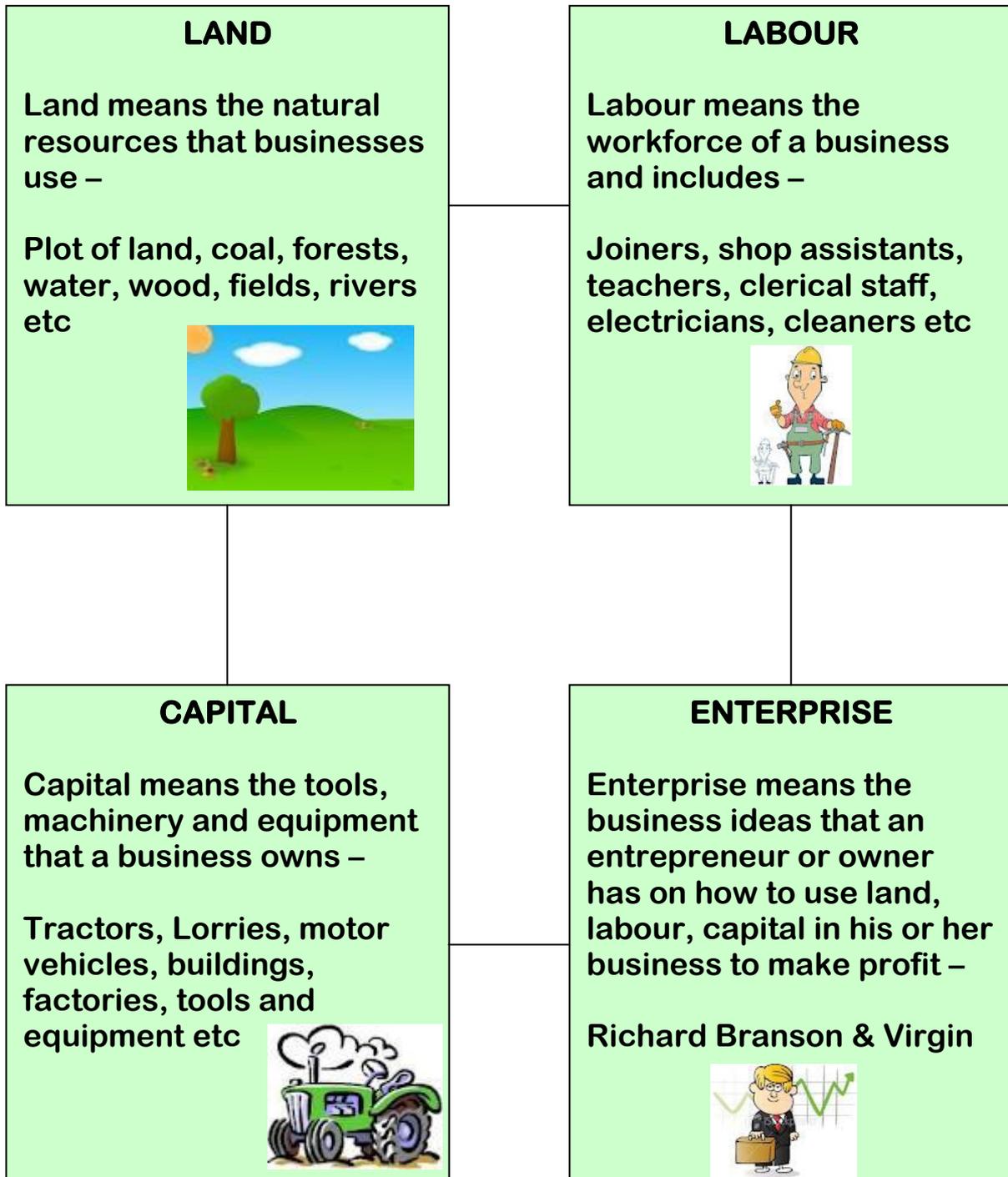
Goods and services can be durable (long-lasting) or non-durable (used up quickly). A cinema is an example of a non-durable service – it provides entertainment in the form of a film for about 2-3 hours on average. After that, the service is no longer available. A television set is an example of a durable good – it should last for a few years, at least.

### Business Resource (Factors of Production)



In order to make a good or provide a service a number of ingredients/resources are required, eg, Land, Labour, Capital and Enterprise. These are also referred to as the **FACTORS OF PRODUCTION**.

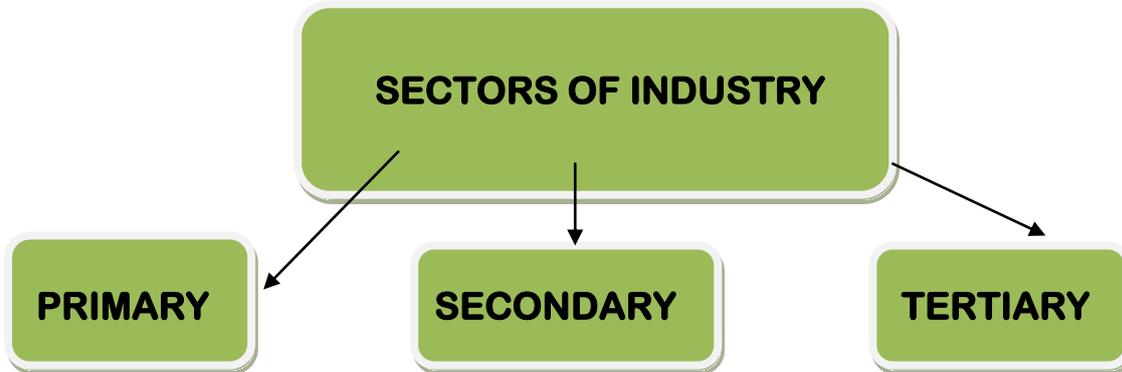
## FACTORS OF PRODUCTION



## Sectors of Industry



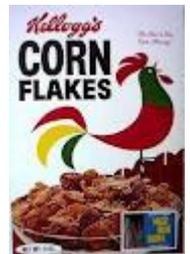
**Businesses exist to produce different goods and services and as such exist in different sectors of industry. There are 3 main sectors as shown in the diagram below.**



**Businesses which exist in the primary sector of industry are those that are concerned with using natural resources such as farming, oil drilling, mining, fishing, and forestry. In other words these businesses are concerned with growing products or extracting resources from the ground.**



**Businesses which exist in the secondary or manufacturing sector of industry are concerned with the making of products. Manufacturing businesses can take the raw materials from other industries in the primary sector and convert them into different products. For example Kellogg's will purchase crops from farmers to manufacture breakfast cereal.**



**Businesses which exist in the tertiary sector do not produce a product. They are concerned with providing services like banking, tourism, beauticians, hairdressers, fitness centres and entertainment like film and TV.**



**SECONDARY SECTOR**

**This sector has declined in the UK. Today there are fewer firms who actually manufacture a product.**

A large black arrow pointing downwards, indicating a decline in the secondary sector.

**TERTIARY SECTOR**

**This sector has increased in the UK. Today there are more businesses that actually provide a service.**

A large black arrow pointing upwards, indicating an increase in the tertiary sector.

**Primary = Farming**



**Secondary = construction**



**Service = Hairdressing**

## **Task 10**

### **Progress Check 1**

**Answer the following questions in sentences on A4 paper.**

<b>Question</b>		<b>Marks</b>
<b>1</b>	<b>Using examples, explain the difference between a consumer need and a consumer want.</b>	<b>4</b>
<b>2</b>	<b>Give an example of a business or organisation which provides a service for consumers.</b>	<b>2</b>
<b>3</b>	<b>What does the word 'durable' mean? Give one example of a durable good.</b>	<b>2</b>
<b>4</b>	<b>Explain, using examples, what is meant by tangible goods and intangible services.</b>	<b>4</b>
<b>5</b>	<b>Name the 4 Factors of Production and give one example of each.</b>	<b>4</b>
<b>6</b>	<b>Name one famous entrepreneur that you have heard of.</b>	<b>1</b>
<b>7</b>	<b>Businesses can be classified as belonging to one of 3 sectors of industry. What is the name given to each of these 3 sectors?</b>	<b>3</b>
<b>8</b>	<b>State one example of a type of business that belongs to each of the 3 sectors.</b>	<b>3</b>
<b>TOTAL MARKS</b>		<b>23</b>



## Enterprise and Entrepreneurs

### Definition

**An entrepreneur is an individual who develops a business idea and combines the factors of production – land, labour and capital – in order to produce a good or provide a service usually with a view to earning profit.**

An entrepreneur is someone who has a good BUSINESS idea and is prepared to take the risk of investing their money to develop the idea.

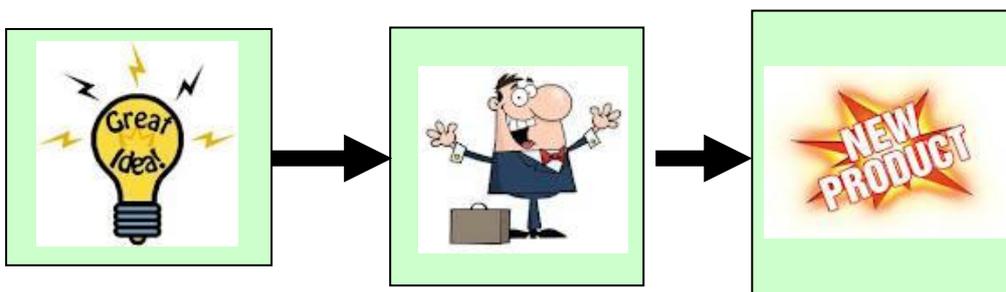
There are many reasons why businesses exist these may include:



The owner wants to make a profit  
The owner wants to work for themselves/is forced to by redundancy  
They spot a gap in the market (see page 8)  
The owner's hobby/interest has commercial potential  
The owner is able to develop an idea into a success

Most entrepreneurs start as a small business and are responsible for all aspects of managing it. However, as the business grows, the role of the entrepreneur may alter as he/she will then have to employ workers and managers and delegate work for them to carry out.

### Entrepreneurship



### Skills of an Entrepreneur

An entrepreneur must:

- take risks – seeing a chance – taking it – risking their own money to invest in the idea;



- have good communication skills – enabling them to communicate with employees, suppliers and of course the customers;
- rise to the challenge – doesn't give up easily – finds solutions to overcome problems;
- have good decision-making skills – deciding which product to produce, best methods of raising finance, what price to charge customers and which staff to hire;
- have good leadership skills – being able to lead and motivate his/her workers to 'achieve the dream'!

### **Gaps in the Market**



Spotting a gap in the market means that you have come up with an idea for a product or service which is not being offered by another company and is not already available in the market place. It may be developing a hobby they enjoy or using a special skill or talent they have to come up with a new business product.

**Spotting a GAP in the market is a classic key success factor in business!**

If an entrepreneur moves quickly to get a product on the market before anyone else, then the financial rewards can be great as customers have to buy from you as there are no other products available to them.

The gap in the market might be providing a product or service in a completely different way. LoveFilm rents DVDs, but they captured the market by sending them through the post rather than following the videoshop model, adding convenience and a huge list to choose from. Moonpig did exactly the same with greeting cards.

**LOVE  
FiLM.com**



Businesses use the law to protect their business idea/product/service by registering ownership of the invention and patenting it. They may even sue for damages if others try to copy their work through the Copyright Act or they can register a trademark to make their company stand out from the rest. Nike has trademarked their “swoosh” logo and their “just do it” slogan.



Coca Cola have also patented their product to prevent anyone else using their logo.



### Sources of Help and Advice

There are many sources of help and advice available for small businesses. A great deal of advice is available on-line. In addition many organisations exist that provide support to new and developing businesses. Here are some examples.

#### Bank

A bank will give financial advice, eg, on how to manage money coming in and going out of your business.



#### Enterprise Agency

For example Business Gateway offers free business advice and support service through local advisers. They offer training courses for people wanting to set up a new business and give advice on such things as preparing a business plan.



#### Lawyer

A lawyer will provide legal advice to keep you on the right side of business law.



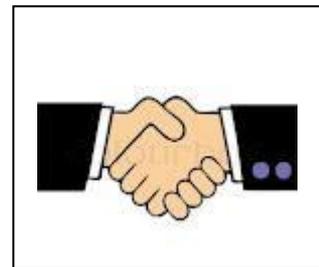
### **Chambers of Commerce**

A local chambers of commerce – an organisation set up to help business people network (make contact with other business people who may support them). It will also offer advice on how your business can become more competitive and successful.



### **Entrepreneurs**

Other entrepreneurs may give advice on which suppliers to choose or what mistakes to avoid.



### **World Wide Web (Internet)**

A vast amount of information is available on line which provides advice for people thinking about starting up in business.



### **The Princess Trust**

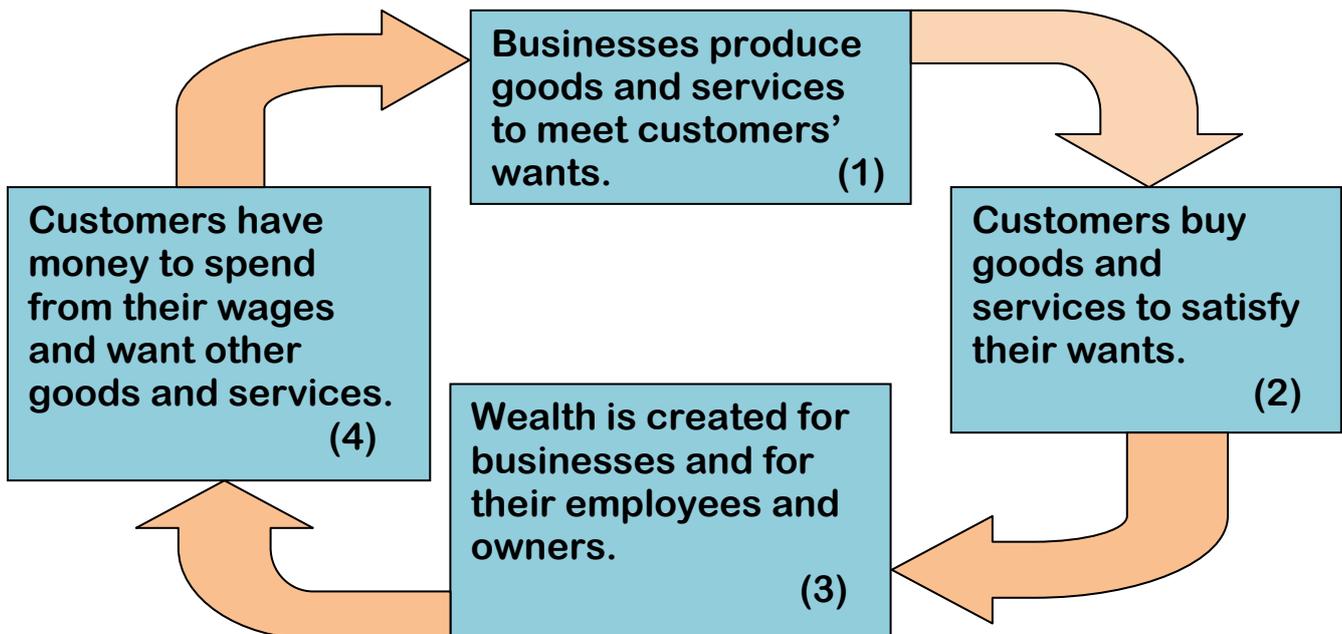
The Princess Trust provides practical and financial support for young people (18-30) setting up in business. It will assist them with producing a business plan, give advice on applying for grants and will also provide grants if certain criteria are met.



## Cycle of Business



The process of buying and selling goods is an on-going process. This is the reason that enterprise is a long term process and why many shops have been on the 'High Street' for a very long time, for example, Marks and Spencer's, Next and New Look.



<b>STEP 1</b>	<b>Entrepreneurs set up in business selling goods and services that consumers need and want.</b>
<b>STEP 2</b>	<b>Consumers use their income and go out to the shops and buy goods and services in order to satisfy their needs and wants.</b>
<b>STEP 3</b>	<b>The businesses supplying the goods and services begin to earn PROFIT and this means they can pay employees wages and the owners also become wealthy.</b>
<b>STEP 4</b>	<b>Consumers now have even more income to spend (from their wages) and so want even more goods and services.</b>
<b>STEP 5</b>	<b>Businesses are now required to expand and produce more goods and services for consumers - and so the PROCESS goes on.</b>

## Progress Check 2

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain what is meant by an entrepreneur.	2
2	Identify and briefly explain the key skills an entrepreneur should possess.	5 (3)
3	What is meant by the term “gap in the market”.	2 (1)
4	Briefly describe the main sources of help and advice available to small businesses or to someone thinking about setting up in business.	6 (5)
5	Explain why the ‘cycle of business’ is an on-going process.	4 (1)
6	In what ways can a business use the law to protect their business idea or product?	1 (2)
7	Name 2 British successful entrepreneurs and identify the product that led to their success.	4
8	There are 3 main sectors of industry – primary, secondary and tertiary. What sector would an estate agent belong to? Why?	3 (2)
<b>TOTAL MARKS</b>		<b>27</b>

## **The Business Plan**



A business plan is a document which outlines the objectives of a business and how it intends to achieve these objectives. These are used mainly when starting out in business. You need to find out if it is financially viable (wise) to actually set the business up in the first place. You will need to work out all your costs and carry out market research on potential customers to find out if sales income will be enough to cover these costs and earn profit.

The entrepreneur can therefore decide whether it is worthwhile going ahead with the business idea or whether the anticipated profit is too low a level to justify financing his/her idea.

It is also likely to be used to convince investors, for example, a Bank Manager to lend the business cash in order to get it started. Banks and other lenders are more likely to lend to entrepreneurs who have been thorough in their planning and research.

**To be convincing, it must therefore contain essential information:**

- **General details** – the name of the business, proposed location and what it is going to produce;
- **The market** – who are the potential customers?
- **Human resources** – who will be employed and work for the business?
- **Finance** – what are the expected costs of running the business, what sales income is expected and what is the expected profit? Also where is the start-up cash coming from, ie, all from the owner/s or partially from a loan?



The Business Plan can also be used when planning for expansion. You may want to redo your business plan with the new costs and benefits – this will help you decide if expansion is the right thing for your business.

## Sample Business Plan

<b>BUSINESS PLAN OF BANNERMAN ENTERPRISE</b>		
<b>GENERAL DETAILS</b>	1. Business Name	<i>Bannerman Enterprise</i>
	2. Type of Ownership	<b><i>Sole Trader</i></b>
	3. What does the business do?	<i>Operate in <b>private sector</b> - we sell greetings cards</i>
<b>THE PRODUCT</b>	Description of goods/USP	<i>Greetings cards, wrapping paper, balloons, mugs, pens and small gifts</i>
<b>HUMAN RESOURCES</b>	Key people and experience/skills, can be displayed on an organisation chart	<b><i>Marketing dept, Human Resources, Operations dept, Finance dept</i></b>
<b>PREMISES AND EQUIPMENT</b>	Where is the business to be based, what equipment will be required.	<i>Based in Baillieston Road Glasgow. Equipment required - shop fittings, cash register, motor van.</i>
<b>THE MARKET</b>	1. Who are the customers?	<b><i>Consumers of all ages based in the Baillieston area.</i></b>
	2. Price of the goods services.	<i>25% mark-up on all goods purchased</i>
	3. Who are the main competitors?	<b><i>2 other Card shops located within a 25 mile radius.</i></b>
	4. Market research results	<i>Who would buy our products and what price they were willing to pay</i>
<b>FINANCE</b>	1. Who are the investors and where is the money coming from?	<i>Start up capital invested by sole trader and external financing, eg, bank</i>
	2. Estimated cash budget and trading, profit and loss statements.	<i>Estimated Cash Budget, T,P and Loss Account and Balance Sheet provided.</i>
	3. Costs and expected revenue	<i>Costs - stock, maintenance, wages and general expenses. Revenue shown on Break-even chart provided.</i>

**Areas of a Business Plan**

**Details under each Area of a Business Plan**

**Example of what our Business Plan would look like.**

**BUSINESS PLAN**

<b>Business Details</b>	<b>Business Name:</b>  <b>Business Address:</b>  <b>Business Type:</b>
<b>Product Details</b>	<b>Product/Service:</b>
<b>Market Structure</b>	<b>Customers:</b>  <b>Competitors:</b>
<b>Marketing Information</b>	<b>Pricing/mark-up:</b>  <b>Promotion:</b>  <b>Place it will be sold:</b>
<b>Resources Required</b>	<b>Staff:</b>  <b>Premises:</b>  <b>Equipment:</b>
<b>Finance Required</b>	<b>Start up:</b>
<b>Performance Forecast</b>	<b>Sales Income</b>  <b>Costs:</b>  <b>Estimated Profits:</b>



## **Sources of Finance**

At some point a business may need to borrow money from banks or other investors for purposes such as paying the staff wages, or buying a piece of machinery or for expanding the business.

Businesses can access many different sources of finance. The source of finance used depends on what the finance is for, and how long it is required for.

<b>BANK OVERDRAFT</b>	
<b>Advantages</b>	<b>Disadvantages</b>
A customer can overdraw from their bank account, ie, spend more than they have in their bank account up to an agreed limit. They could, for example, pay wages from their bank account even though they have no money in their account.	This can work out expensive if used for a long time as interest is charged daily.  The facility may be withdrawn immediately if the limit is exceeded.

<b>TRADE CREDIT</b>	
<b>Advantages</b>	<b>Disadvantages</b>
Businesses can buy goods from suppliers and then arrange to pay for them at a later date. This gives the firm time to sell the products at a higher price, earn a profit and then pay their suppliers – hopefully before the bill or invoice arrives.	Sometimes suppliers offer a cash discount (reduction in price) for prompt payment. The firm will lose the cash discount if they take too long to pay. Also suppliers may be reluctant to sell more goods on credit if the business struggles to pay on time.

<b>FACTORING (DEBT COLLECTOR)</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>When customers who buy on credit fail to pay on time or attempt not to pay at all the business can use a factoring service. The factor will buy the debts of the business and they will then attempt to recover payment from the customers.</p> <p>This saves the business time pursuing customers and ensures the business receives most of the money it is owed.</p>	<p>The factor charges the business a fee for their service and so this reduces the amount of cash they will actually receive.</p> <p>Factors tend only to be interested in pursuing customers who owe large amounts of money to the business.</p>

<b>SHORT-TERM BANK LOAN</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>The bank may provide a loan to the business for a fixed amount to be paid back over a fixed period of time in fixed monthly instalments. The loan may be used to buy an essential piece of equipment or to obtain extra cash to pay bills. Because it is a short-term loan there will be less interest payments.</p>	<p>When the business tends to be small, or newly formed, they tend to be more of a risk.</p> <p>As such these loans can be more difficult to obtain and the interest rate to be paid tends to be much higher.</p>

<b>HIRE PURCHASE</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>Higher purchase allows a business to buy an asset such as a delivery van and pay it back over 36 months. A deposit is required followed by payment over a few years. This allows the business to purchase items like machinery and equipment with only a small initial outlay of money.</p>	<p>The business does not legally own the asset (machinery or equipment) until the last payment has been made.</p> <p>Interest is usually charged and so it can be an overall more expensive way of purchasing large items.</p>

<b>LEASING</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>When a business uses a leasing system it never owns the asset. The business simply 'rents' the asset. For example Arnold Clark now offers a leasing system to allow small businesses to rent motor vehicles and vans.</p> <p>The advantage is that the leasing system will replace the asset every couple of years and they are also responsible for any repairs.</p>	<p>The business will never actually own the asset.</p> <p>Rental charges or leasing costs can build up over a long period of time and so it may actually work out cheaper to actually purchase the asset in the first place.</p>

<b>ADDITIONAL CAPITAL</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>This is where the amount of money invested in the business by the owner is increased by the owners (they take more of their own personal savings and 'lend' it to the business. Or they may decide to invite a partner to join the business. The business does not need to pay back the money which has been invested and there is no interest to pay or any other costs involved.</p>	<p>The owner/s are now risking more of their own personal money as more of their private savings are 'tied up' in the business.</p> <p>If a partner is now involved in running the business, profits now have to be shared and so each owner gets a smaller share of the profits.</p>

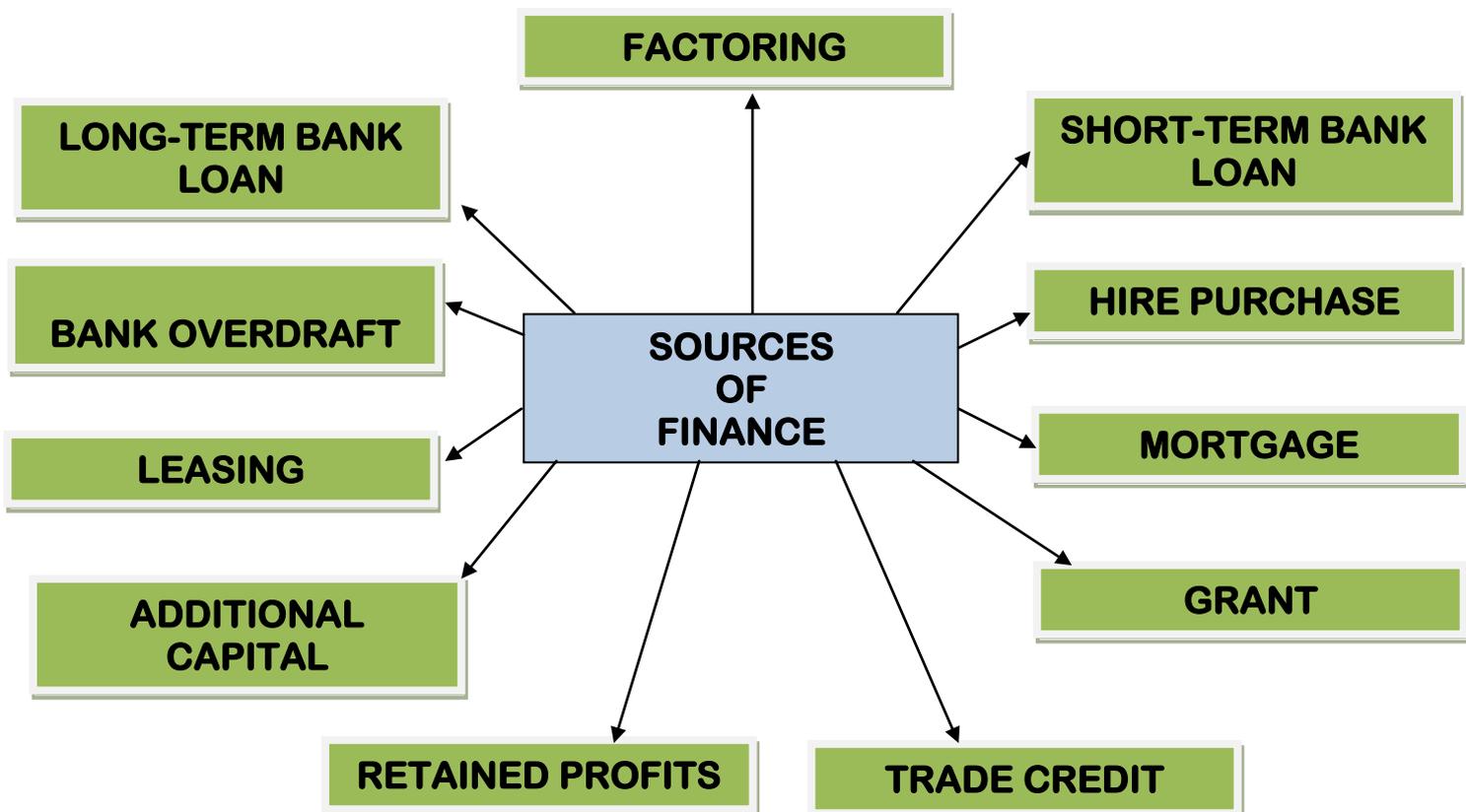
<b>MORTGAGE</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>A common method of financing land and premises such as shops is to take out a mortgage which is a type of long-term loan secured against the title deeds of a property or piece of land.</p> <p>The business is given a long period of time (25 years) to pay the mortgage back.</p>	<p>Interest has to be paid on top of the initial amount borrowed.</p> <p>If the business does not pay the mortgage back or falls drastically behind with repayments, the lender (bank or building society) can claim ownership of the property or land etc.</p>

<b>LONG-TERM BANK LOAN</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>The bank may grant a loan for a fixed amount, to be paid back over a fixed period of time in fixed instalments. A long-term loan might be taken out to buy a very expensive piece of machinery and be re-paid over a 5 year period.</p> <p>As such the business is able to purchase machinery now and use it in the business to start generating profit.</p>	<p>The business has now incurred debts and must ensure that all monthly payments are made on time.</p> <p>Interest is usually charged on top of the initial loan amount and so this can be a very expensive way of purchasing equipment and machinery.</p>

<b>GRANT</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<p>A Source of finance from central government or local government, Business Gateway or the Princes Trust.</p> <p>In most cases the money does not have to be repaid.</p>	<p>It is usually a one-off payment and certain conditions or criteria must be met before it can be obtained.</p> <p>Usually the business is told what the money must be used for.</p>

RETAINED PROFITS	
Advantages	Disadvantages
A business can use its profits to purchase machinery and equipment. The advantage is that there is no interest to be paid and the business is not incurring any debts. The business will own the assets straight away.	When a business spends all of its profits it can run into cash flow problems. They may not be able to pay for any unexpected costs or expenses as all profit has been spent.

### SUMMARY – SOURCES OF FINANCE



### Progress Check 3

Answer the following questions in sentences on A4 paper.

Question		Marks
1	What is the purpose of preparing a Business Plan?	2
2	Why is it important to have a thorough and convincing Business Plan?	1
3	What essential information should be included in a basic Business Plan?	4
4	What is meant by the term 'competitor'?	1
5	Name and explain the most appropriate source of finance for an entrepreneur wishing to purchase a shop costing £150,000.	3
6	What is meant by the term 'market research'?	2
7	Explain the difference between leasing a motor vehicle and purchasing a motor vehicle using hire purchase.	4
8	What do the following sources of finance all have in common:  Bank overdraft; mortgage; short-term loan.	1
<b>TOTAL MARKS</b>		<b>18</b>



## AIMS OF DIFFERENT KINDS OF ORGANISATIONS

### PRIVATE SECTOR

- Sole Traders
- Partnerships
- Private Limited Company (Ltd)
- Public Limited Company (plc)

Main aims are:

- spotting a gap in the market
- turning a new idea into a success
- maximising profits

### PUBLIC SECTOR

- Central Government
- Local Government

Main aims are:

- to provide a high quality product/service to all citizens of the country
- to provide essential services such as hospital care, education, defence and police
- provide services which are not entirely profit driven

### THIRD/VOLUNTARY SECTOR

- Charities
- Social Clubs, eg bowling clubs

Main aims are:

- fund raising to support causes
- raise awareness, eg, famine in Africa
- clubs provide services and facilities for members

They do not aim to make a profit, though they may achieve a surplus of income over expenditure.

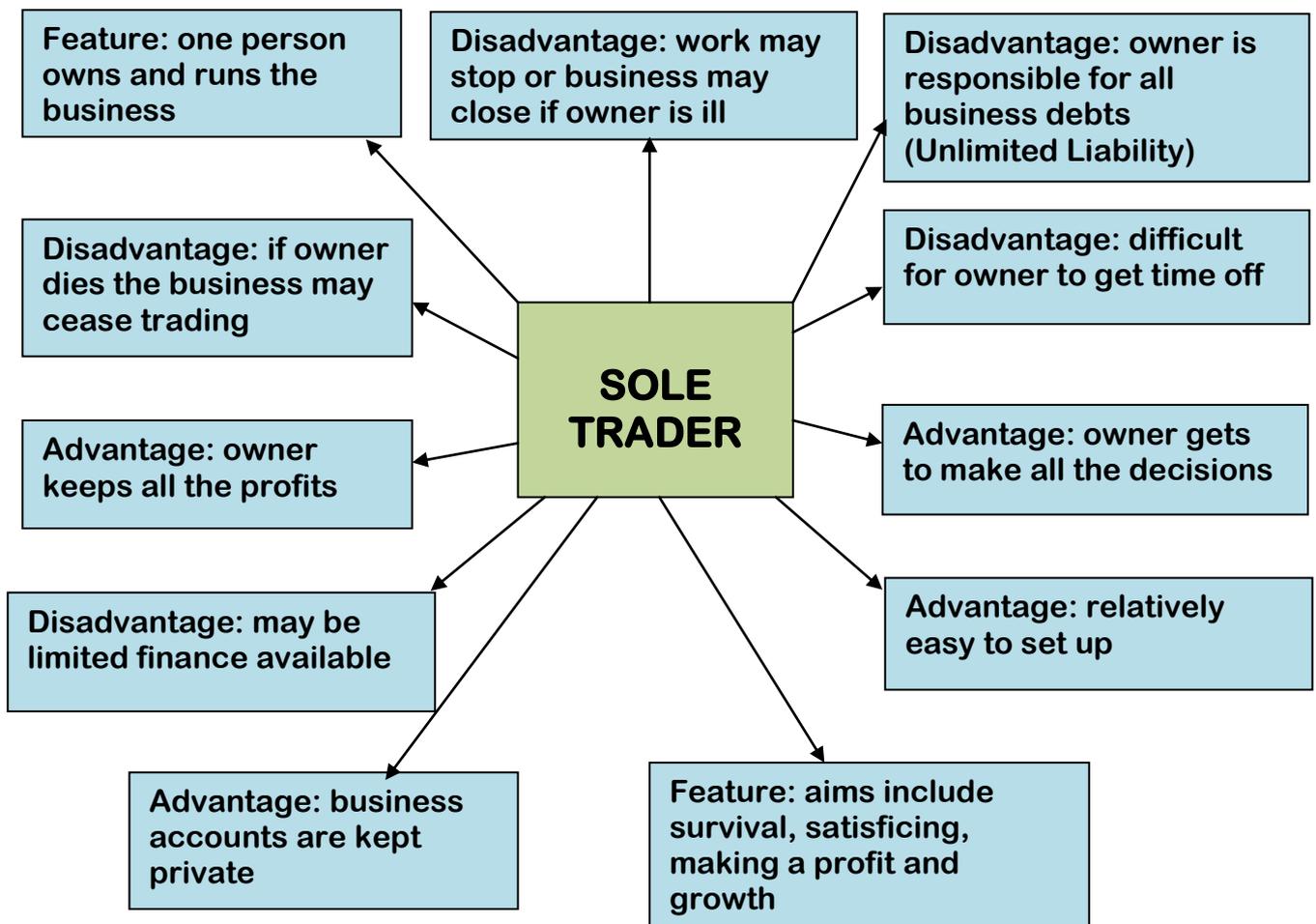


## SOLE TRADER

A sole trader is a one-owner business (it is owned and controlled by one person). Most small businesses are sole traders, for example, hairdressers or plumbing businesses.

Finance is available from the owner's own savings, bank loans and government grants.

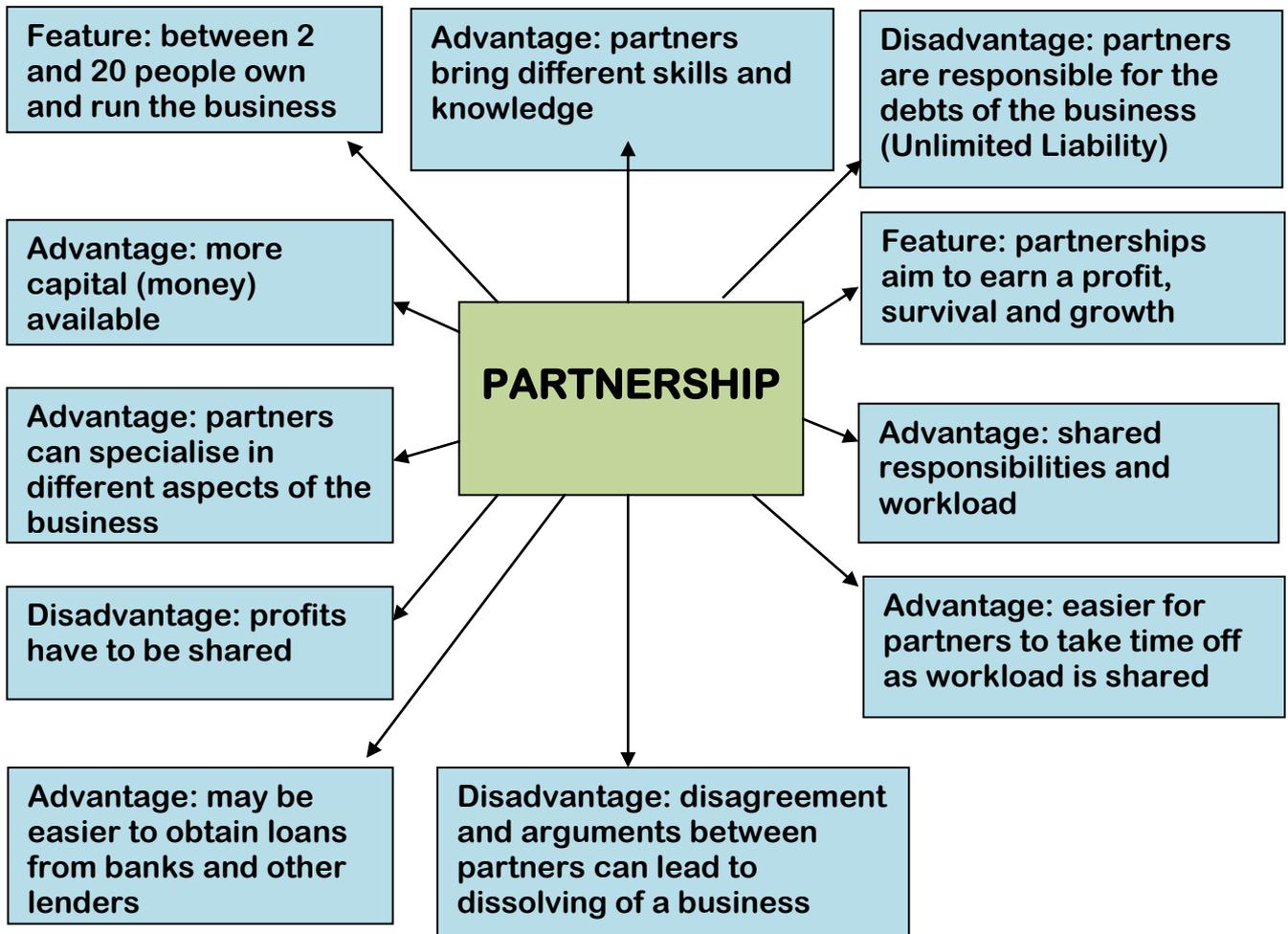
Sole traders usually aim to survive and maximise profits.





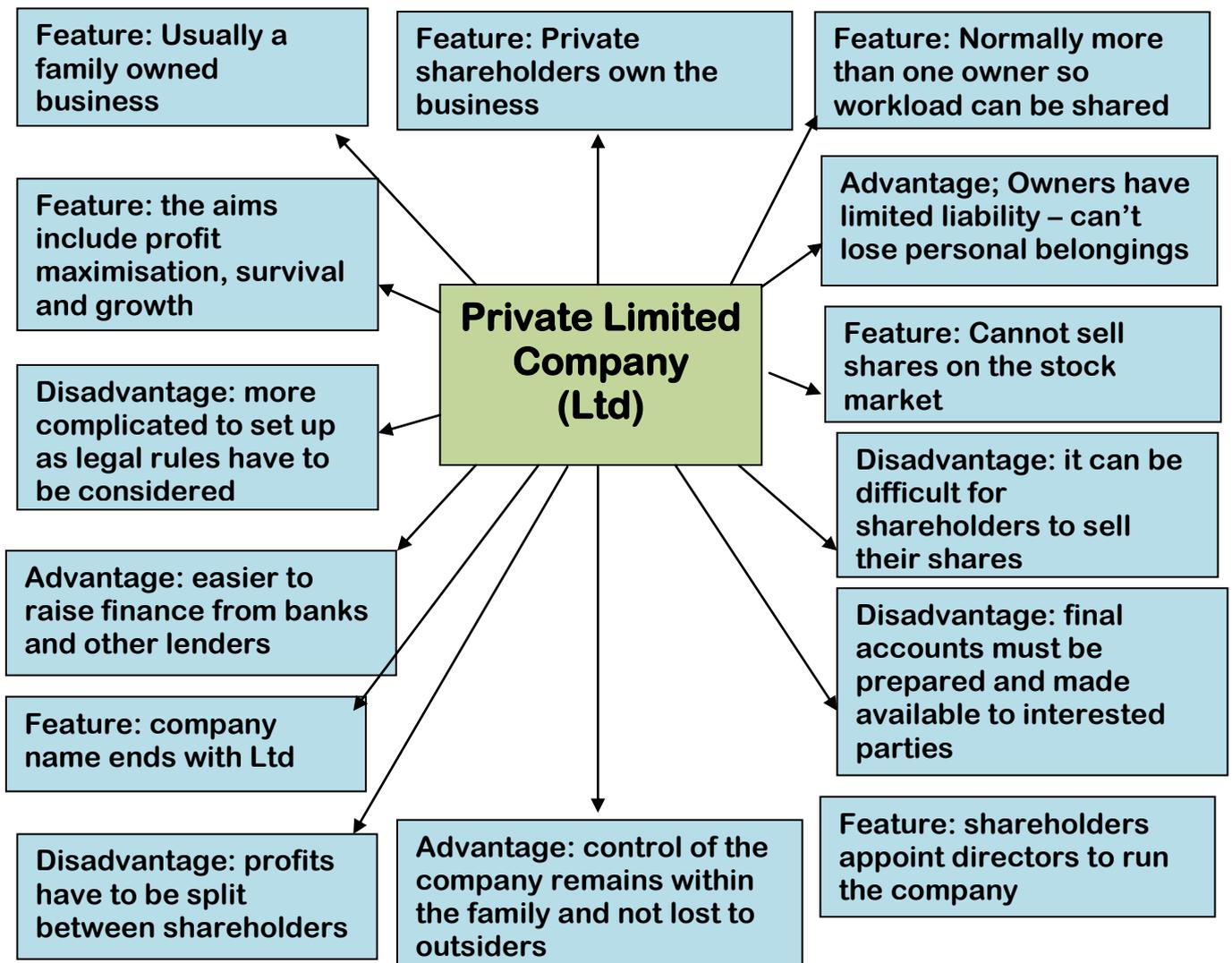
## PARTNERSHIP

A partnership is a business with two to twenty partners – people who own and control the business together. The partners must produce a Partnership Agreement which outlines all the rules and conditions that each partner must adhere to. It also outlines the procedures to be followed when any partner joins, leaves or dies.



## PRIVATE LIMITED COMPANY (Ltd)

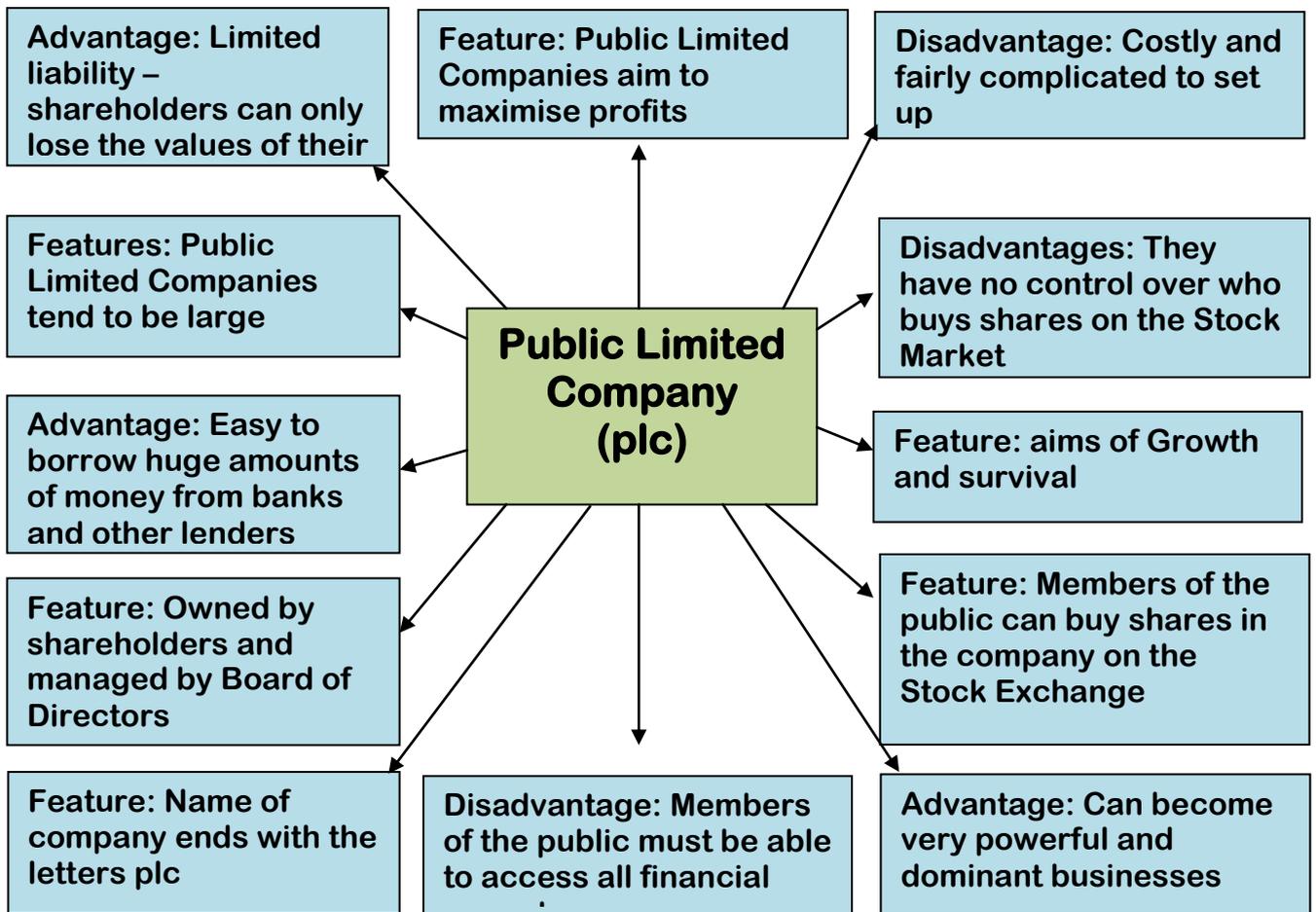
This is a company whose shares are owned privately, ie, shares are not available to the public on the Stock Market. Sometimes they are family owned companies where all members of a family are shareholders, for example, Ryanair, Arnold Clark and Baxters Food Group Ltd. There must be at least one director and a secretary who keeps all company records. Shareholders have limited liability meaning they can only lose the value of their shares and not their private assets or belongings.





## **PUBLIC LIMITED COMPANY (plc)**

A public limited company (plc) is a company whose shares are available for purchase by the public on the Stock Market. There must be a minimum of two shareholders and a minimum of £50,000 to start the company. The company is owned by members of the public (shareholders) who appoint a board of directors to manage and control the company on their behalf. Examples include – BT, Vodafone, Tesco, Stagecoach and Celtic FC.



### Progress Check 4

Answer the following questions in sentences on A4 paper.

Question		Marks
1	State 2 advantages of operating as a Sole Trader.	2
2	Who owns a Public Limited Company and who manages a Public Limited Company?	2
3	Shareholders have limited liability. What is meant by the term 'limited liability'?	1
4	Baxters Food Group (Ltd) is an example of a Private Limited Company. Give 2 other examples of a Private Limited Company.	2
5	What is the maximum number of people who can operate as a Partnership?	1
6	Explain why the partners in a partnership might decide to change to a private limited company?	2
7	What are the main aims of businesses that operate in the private sector?	2
8	What are the main aims of organisations that operate in the public sector?	2
<b>TOTAL MARKS</b>		<b>14</b>



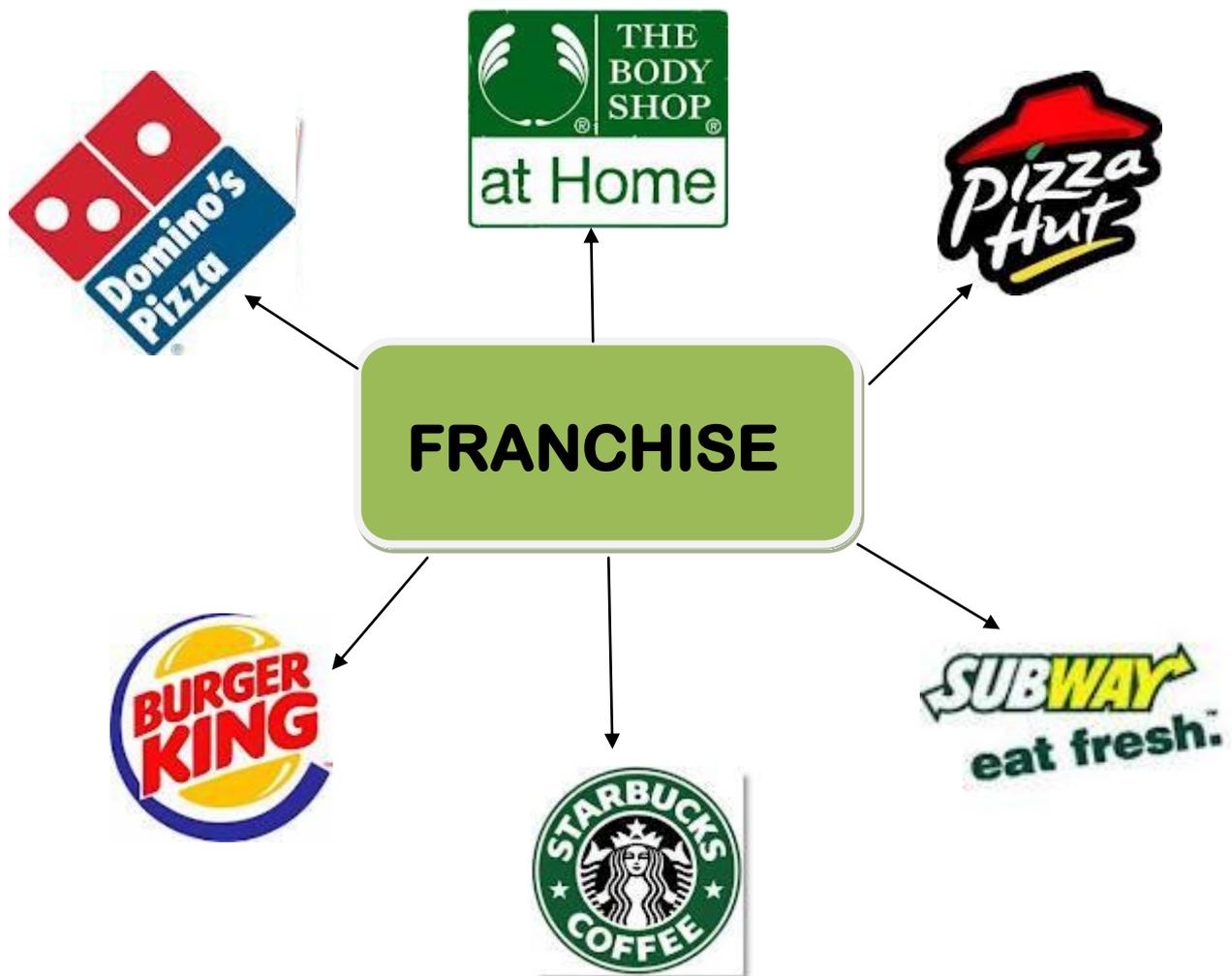
## **Important Definitions**

<b>Key Word</b>	<b>Meaning</b>
<b>Stock Market</b>	Where people buy and sell shares in companies – this is now mainly done on-line
<b>Limited Liability</b>	Investors in a business (company) can only lose the value of the shares they own – their private belongings cannot be taken to pay the company's debts.
<b>Companies Act</b>	An act of law which sets out rules and procedures which companies must abide by.
<b>Shareholders</b>	A person who invests (uses his/her own money) to buy a share in a company. Shareholders jointly own the company.
<b>Board of Directors</b>	A group of highly skilled and professional managers who are appointed by the shareholders (owners) to run the company on their behalf.
<b>Annual Accounts</b>	Statements which are produced once per year and shows the value of the businesses assets and how much profit the business has made in the current year.



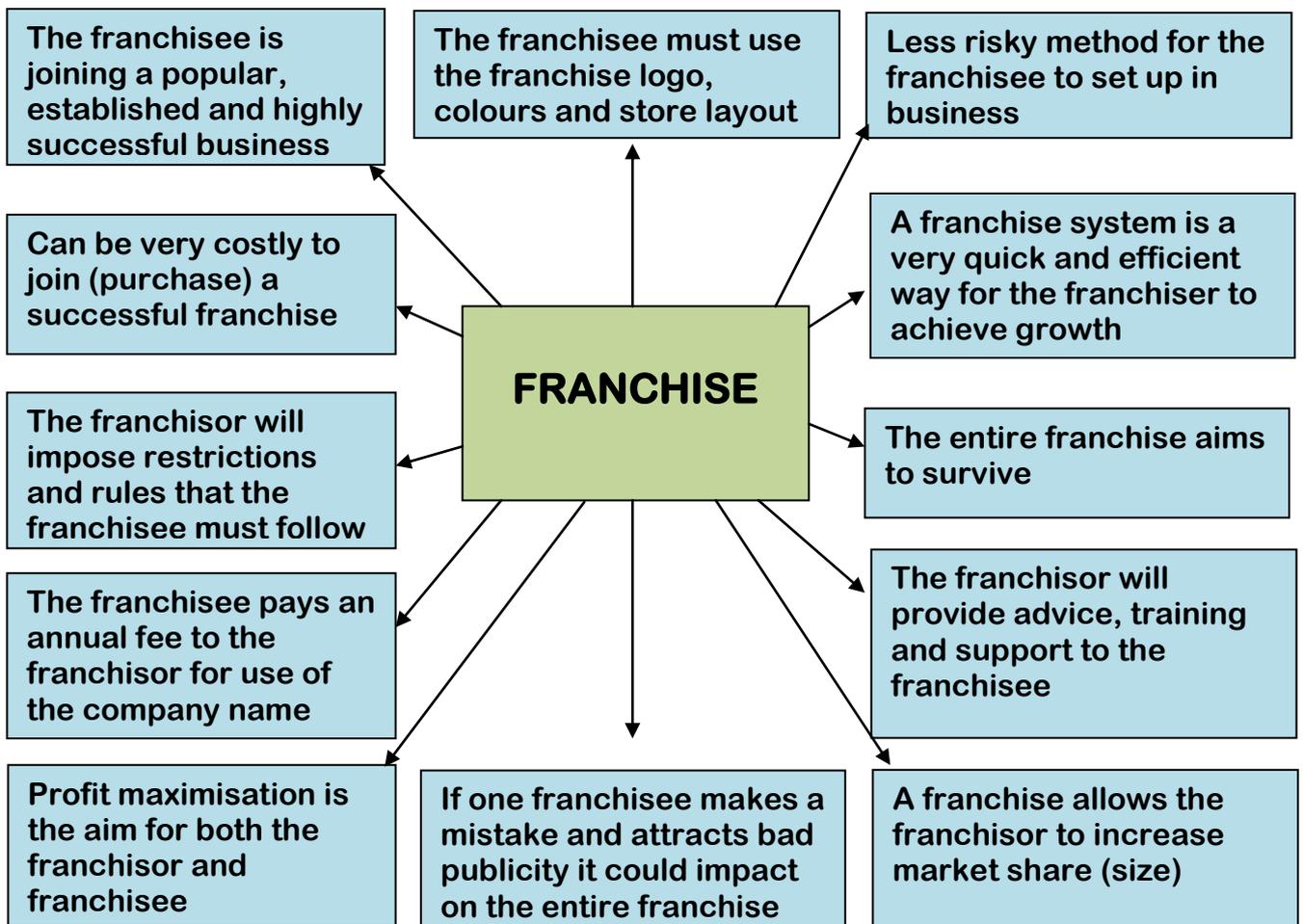
## FRANCHISE

A franchise is a business agreement where one business can operate under the name of another business. The franchisee pays the franchisor a percentage of his/her annual sales or profits or agrees to pay a set fee each year. This then allows the franchisee to operate with the business name (which is usually very well known) and sell the products and services associated with the business name.



**Franchisor** – this is who owns the original business.

**Franchisee** – this is who has bought the right to use the original business name and enter into trade selling its products.





## **PUBLIC SECTOR**

The public sector comprises of:

- Westminster Government
- Scottish Parliament
- Local Government (Local Councils)

**CENTRAL  
GOVERNMENT**

### Central Government

The Westminster (Houses of Parliament) and the Scottish Parliament provide important national services such as

- Health
- Transport
- Defence

**Finance** – this comes mainly from taxes paid by the public.

### **Objectives:**

- provide a high quality and efficient service (eg, National Health Service);
- to improve society;
- to make effective use of taxes.

Central Government is organised and operated by elected politicians. To help achieve its aims and objectives Central government delegates resources and responsibility to Local government.

## Local Government

Local Government (Local councils) are set up by central government (Scottish Parliament) and are run on its behalf by locally elected councillors. The day to day running of services is organised by managers and employees of each council. A local council aims to meet the needs of local people and businesses. Local councils do not aim to make profit – rather they are required to provide the most efficient service possible within allocated budgets.

### Local government functions include the organisation of:

- **education and leisure services** - staffing, buildings, museums, pools and sports centres, childcare, psychological services, halls and community facilities, libraries;
- **social work** - community care, children and family services;
- **planning and transport** - roads, public transport, economic development, flood prevention, development of new buildings;
- **environmental services** - refuse collection and disposal, street lighting, food safety, health promotion, animal welfare, maintenance of parks and cemeteries;
- **housing** - allocation and maintenance of public housing, homeless provision, rent collection, building new council houses;
- **finance** - annual budgets for managing income and spending, financial reports, collection of Council Tax and business rates;
- **information technology** – use of ICT across all council services.

It is clear, therefore, that the work of local government has a huge impact on the lives of residents of the area. However, local governments generally have to act within central government policy even if it is something of which they are not particularly in favour. There is constant monitoring of local government activities in an effort to ensure that 'best value' is always being attained.

## **Finance**

### **Local governments are financed in a variety of ways:**

- **government grants** - the main source of local government income. This money comes from the UK government via the Scottish Parliament and accounts for about 40% of total council income;
- **council tax** - an amount of money paid by each household based on the value of the property. Each local authority sets its own council tax rate;
- **non-domestic rates** - paid by businesses. This is set by the central government and is the same across the country charges for services: such as entrance to leisure facilities, housing rents;
- **the sale of assets** - such as council houses.

## **Public Corporations**

These are companies that are owned and controlled by central government. The government appoints a chairperson and board of directors to run the company on the government's behalf. Examples of Public corporations include the BBC and Royal Mail.



## **VOLUNTARY (THIRD) SECTOR**

These organisations have different aims from those of private sector enterprises. They are 'not for profit' organisations and very often their reason for existing is to help a charitable cause in some way.

### **Charities**

The government regulates the activities of charities and keeps a Register of Charities in the UK. Charities are exempt from paying most taxes. Charities are often set up as trusts with no individual owner, and overall management and control is undertaken by unpaid trustees (people who are placed in a position of trust with the responsibility for looking after the interests of others).

#### **FINANCE**

- Donations from the public
- Donations from companies
- Government grants
- Lottery Grants
- Profits from charity shops

#### **OBJECTIVES**

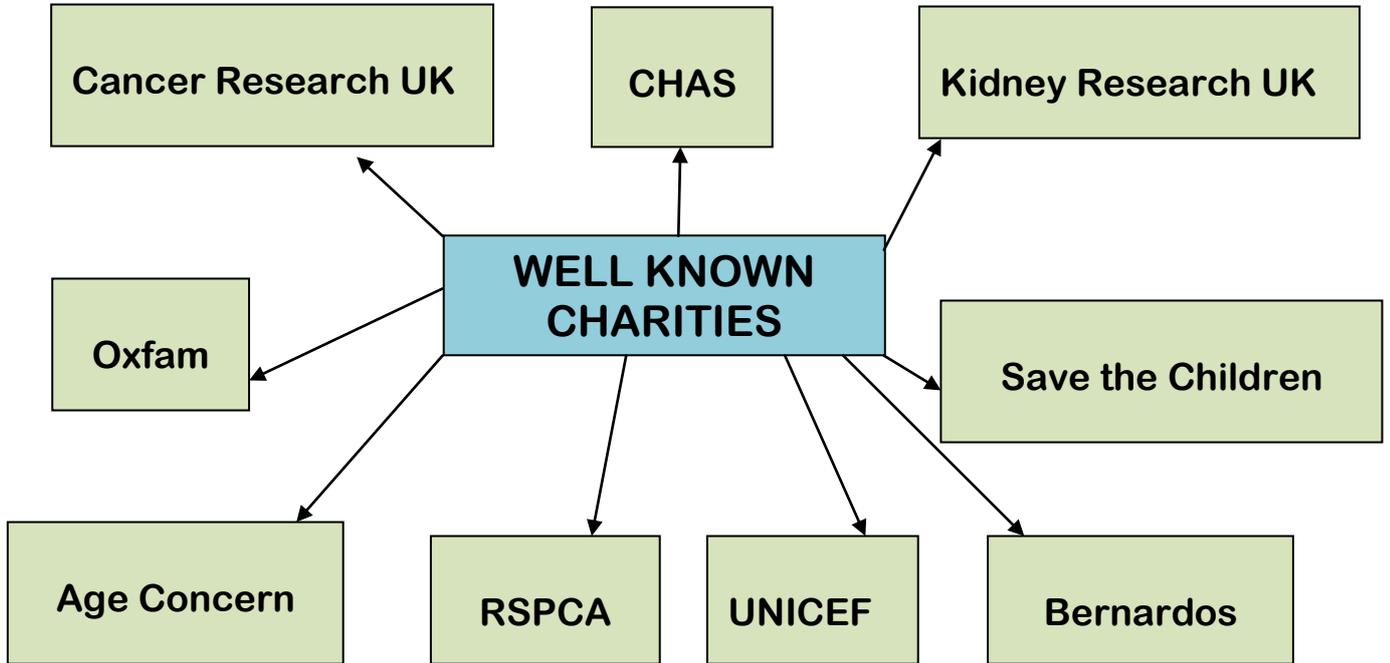
- To provide a service
- To relieve poverty
- To fund medical research
- To provide protection to the vulnerable
- Advance education
- Raise awareness

### **Voluntary Organisations**

Voluntary organisations are run and staffed by volunteers. Examples include the Scouts, youth clubs, Brownies, sports clubs. They bring together people with similar interests. They are run by a committee of elected volunteers.



These organisations can raise finance by applying for grants from the lottery, Sports Council or local authorities. They may also charge a fee to become a member of their organisation or to use their facilities.



## Progress Check 5

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain the difference between a franchisee and a franchisor.	2
2	Starbucks is a well-known franchise. Name 2 other well-known businesses that operate as a franchise.	2
3	State 2 advantages and 2 disadvantages for a franchisee.	4
4	State who owns a plc and who manages a plc.	2
5	Outline the difference between Central Government and Local Government.	4
6	List some of the main services provided by Local Government.	4
7	Name 2 well known charities and state what causes they support.	4
8	Outline some of the ways in which charities finance their organisations?	3
<b>TOTAL MARKS</b>		<b>25</b>



## **CUSTOMER SERVICES/CUSTOMER SATISFACTION**

### **Overview**

To survive, businesses must meet the needs of customers. So what are the needs of customers? Here are some factors which are important to customers:

- **Good quality products**
- **Attractive packaging**
- **Durability (products that will last)**
- **Up-to-date, fashionable products**
- **Good Prices**
- **Good Image**
- **Easily available**
- **Guarantees with the product**
- **Good after-sales service (refunds if customer is not happy)**

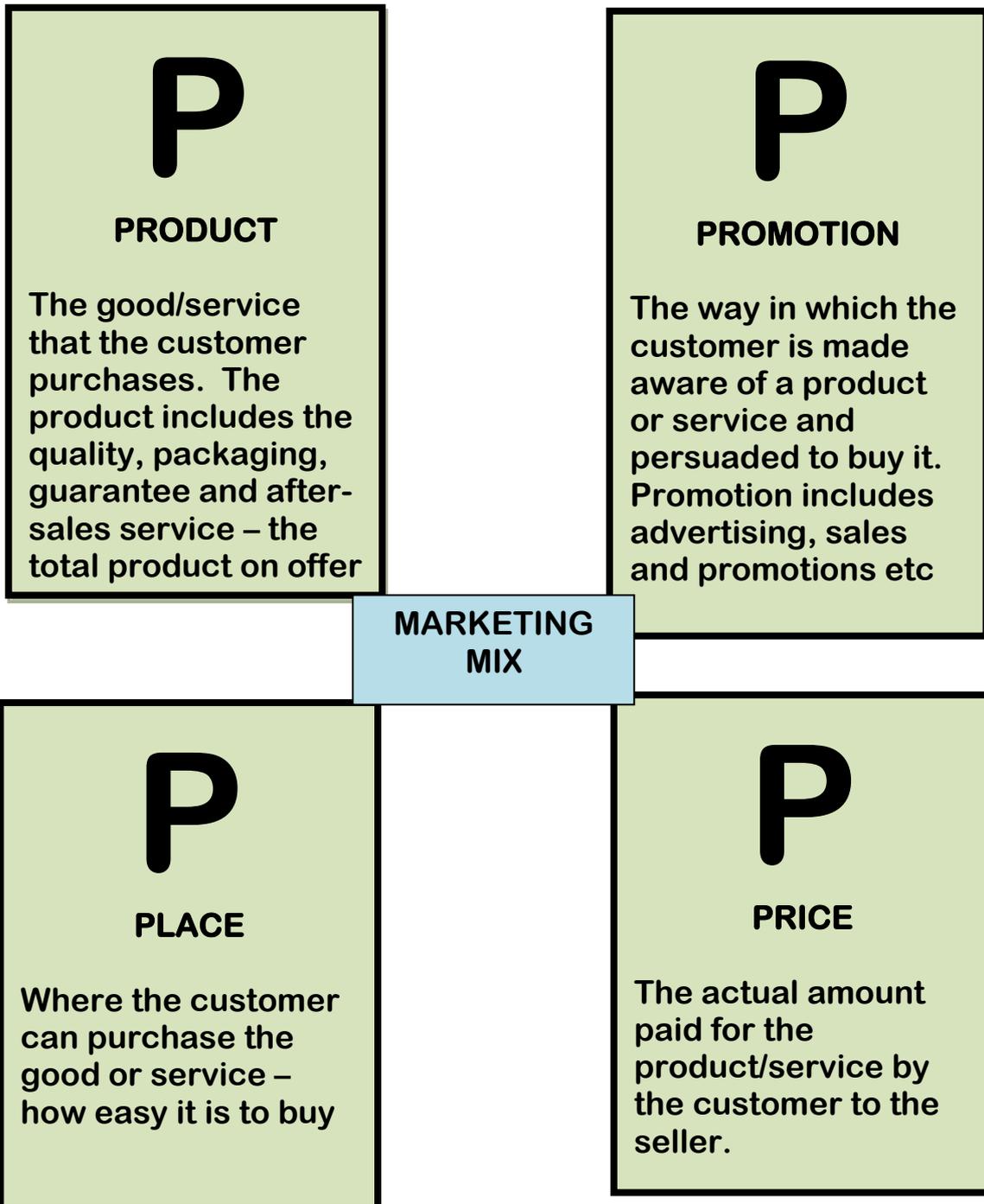


Businesses use market research to identify consumer needs/wants. This could be as simple as asking your restaurant customers to fill in a questionnaire commenting on the quality of the food, or the service they received etc. This will allow the restaurant owner to identify any areas of weakness that can be improved on – and thereby satisfy the customers so that they continue to return to the restaurant.

Market research can also help identify gaps in the market, ie, come up with a new idea for a new product or service to satisfy consumer wants.

If a business wishes to meet the needs of its customers and sell its products successfully it must develop a strategy based on the 4 P's – **Product, Price, Promotion and Place.**

How these 4 elements are combined is referred to the **MARKETING MIX** and will determine how well a product will sell.



The task for the seller is to: **Promote the right Product at the right Price in the right Place!**

## **What is Customer Service?**

Customer service is the provision of service to customers before, during and after a purchase. In order to ensure that a customer's needs are met, the organisation should try to ensure that customers are dealt with in a fast, constant and effective way. A company may decide to set up a customer care strategy. This will include:



- Ensuring the quality of customer service – staff are always happy to help;
- Measuring whether customer's needs are being satisfied – ensuring a wide range of products;
- How customer complaints are dealt with – all complaints are treated seriously and resolved to full customer satisfaction.

Many organisations now also make customer service a high priority on their web-sites. Many businesses believe that it is actually a lot cheaper to encourage existing customers to keep coming back rather than having to continually advertise to attract new customers.

## **Factors which affect whether Goods or Services Meet a Customer's Needs:**

- Reliability/quality of the product/service;
- Consistency over a period of time – how does it match up to the last good/service purchased?
- The speed and flexibility of delivery – can the organisation accommodate the customer's needs, for example, can they deliver within 24 hours?
- Courtesy and attitude of staff – from those on the shop floor to the delivery drivers;

- The information given about the product – was it accurate? Did it do all the business claimed it would do?
- How did the organisation react if help was needed? Were staff happy to assist the shopper?

### What Makes Good Customer Service?

- Keeping customers well informed of progress and changes.
- Under-promise and over-deliver – do not set expectations too high so that customers will not be upset if they are not met, however, if you can deliver more than what they are expecting customers will be pleased.
- Go the extra mile to ensure customer's needs/expectations are always met.



### Why is Customer Service So Important?

- It is important to treat the customer well as it will have longer term benefits for the organisation.
- Good customer relations mean that the organisation's reputation is enhanced – customers see the way they were treated by an employee and the organisation as the same thing.
- All organisations benefit from good publicity from happy customers. A person with a bad experience is five times more likely to pass on a story of a bad experience than a happy experience.



- Good customer relations are likely to mean regular repeat orders. Customers happy with the service they received are likely to become loyal customers.
- Increased loyalty results in more sales and a bigger market share.
- Good publicity received from an enhanced reputation means that the company is likely to attract a better calibre of employees – members of the public looking for employment always seek out those businesses with a good reputation.

### Impact of Poor Customer Service

- Customer care is important at all levels of the organisation. Many people will form an opinion of an organisation from the way they are dealt with from their first point of contact with the organisation.
- Bad publicity results from poor customer service as people always tell others about their experiences.
- A poor reputation is difficult for an organisation to turn around and a poor reputation has implications for falling market share.
- Customers who are not happy will not come back. Many people do not complain about the poor service, they just simply do not give repeat custom – resulting in falling sales.



### How can you measure customer satisfaction?

#### Market Research

Often organisations survey customers or ask for feedback to ensure that high standards of customer service are being met or to find out if there is any way things can be made better.

Some methods of checking customer satisfaction are:

- a written survey or questionnaire is posted out to customers;



- telephoning customers to ask pre-set questions;
- e-mailing customer questionnaires;
- holding a meeting of invited customers to answer questions/give opinions;
- face to face interviews given at point of sale or on entry and exit from the store;
- mystery shoppers – who act as customers to experience the service given by the organisation.
- suggestion boxes/schemes for customers to leave anonymous suggestions/opinions.



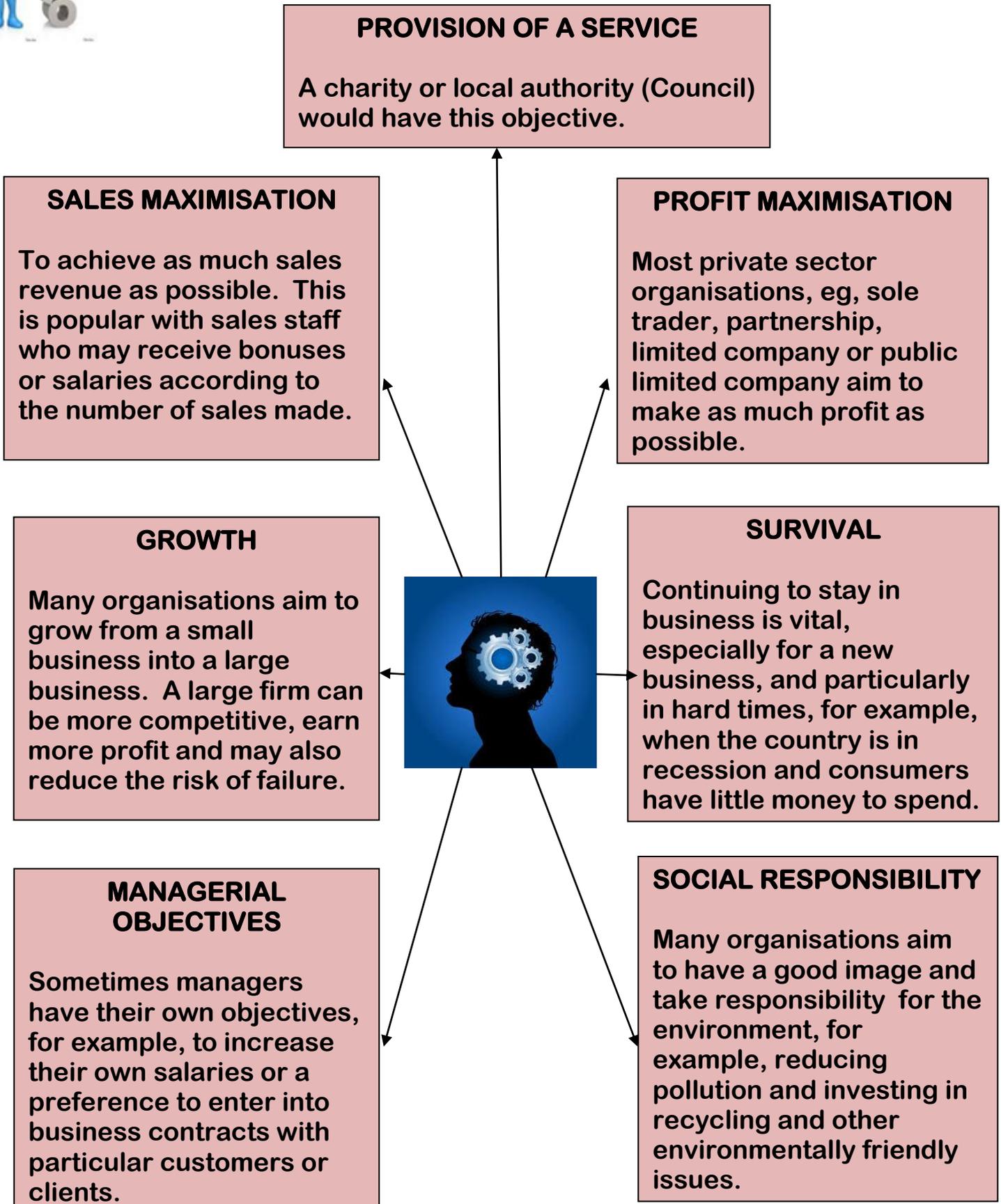
## Progress Check 6

Answer the following questions in sentences on A4 paper.

<b>Question</b>		<b>Marks</b>
1	List some of the key factors which customers would consider to be important when buying a product.	6
2	Outline some of the consequences for a business who fails to pay attention to customer care.	4
3	What 3 strategies should a business employ to ensure good customer service?	3
4	What are the advantages for an organisation who invests heavily in ensuring good customer care?	4
5	Explain what is meant by a mystery shopper.	1
6	List some of the methods a business can employ to carry out market research.	5
7	Explain what is meant by the 'marketing mix'.	4
8	Why do YOU think more and more businesses are giving more coverage to customer care on their web sites?	1
<b>TOTAL MARKS</b>		<b>28</b>



## UNDERSTANDING BUSINESS OBJECTIVES



## STAKEHOLDERS

### Definition

“A person or group of people who have an interest in a business or organisation and in the way in which it is managed and run.”

Think about your school. There are many people that have a ‘stake’ in it and have a genuine concern with how well it is performing.

Quite clearly, there are many people or stakeholders that are concerned with the welfare of your school.

Similarly, in every business organisation, from large companies like British Airways to your local corner shop, there will be a number of people or stakeholders that will look for that business to produce results which suit their own personal needs. Some stakeholders are actually in the business, eg, staff (Internal Stakeholders) others are outwith the business, eg, customers (External Stakeholders).

Let’s now consider some of the more common business stakeholders and what their specific interests are.

Below is a list of potential business stakeholders.

Consider their interest in a business and indicate whether you think they are INTERNAL or EXTERNAL. The first one has been completed for you.



**Owners** – The owners have invested their own money into the business in the hope that it will progress and grow.

INTERNAL  
STAKEHOLDER



or

EXTERNAL  
STAKEHOLDER





**Managers** – The managers are employed by the business and will sometimes have special arrangements in place that may entitle them to additional pay (a bonus) if the business is performing well. On the other hand, if the business is *not* doing well they could possibly be sacked. A good example of this is when a football team is not doing well; it is normally the team’s manager that faces the ‘axe’.

INTERNAL STAKEHOLDER  or EXTERNAL STAKEHOLDER



**Inland Revenue (HMRC)** – The Government need to know how successful the business is to ensure they collect and receive the correct amount of tax.

INTERNAL STAKEHOLDER  or EXTERNAL STAKEHOLDER



**Employees** – They want job security, to be paid a fair wage and to be part of a successful business.

INTERNAL STAKEHOLDER  or EXTERNAL STAKEHOLDER



**Shareholders** – They have bought shares in the Public Limited Company and want a good return on the money they have invested through the payment of dividends. They also want to see the value of their shares rise.

INTERNAL STAKEHOLDER  or EXTERNAL STAKEHOLDER



**Suppliers** – They need to be guaranteed that if they supply goods on *credit* that the company has the ability to pay them back.

INTERNAL  
STAKEHOLDER

or

EXTERNAL  
STAKEHOLDER



**Banks** – They want to make sure that if they provide an organisation with a loan that the business will be able to pay it back within the terms and conditions of the loan agreement.

INTERNAL  
STAKEHOLDER

or

EXTERNAL  
STAKEHOLDER



**Local Community** – The local community surrounding a business want it to do well so it can provide employment in the area and even support local projects. They also want to ensure that the business does not create any negative effects such as pollution or traffic congestion.

INTERNAL  
STAKEHOLDER

or

EXTERNAL  
STAKEHOLDER



**Customers** – The customers of a company want the business to provide them with a quality product or service at an affordable and reasonable price.

INTERNAL  
STAKEHOLDER

or

EXTERNAL  
STAKEHOLDER



**Support Agencies** – provide support and advice for entrepreneurs and start-up businesses. These include Business Gateway and the Prince’s Scottish Youth Business Trust. It is important that the people and businesses they help out do well so that they become well-respected within the business community and so that they can continue to provide the services they offer.

INTERNAL  
STAKEHOLDER

or

EXTERNAL  
STAKEHOLDER

The following are all stakeholders in a business:

- Shareholders
- Local Community
- Owner
- Managers
- Employees
- Support Agencies
- Suppliers
- Customers
- UK Government

The table on the next page lists the interests of various stakeholders. Opposite each one, write what stakeholder, from the list above, is likely to express each of these interests.

<b>Interest</b>	<b>Stakeholder</b>
I want to make sure that the raw materials and equipment I provide on credit to a business is paid for on time.	
I want to make sure my job is safe and that I am being paid fairly.	
I want to make sure that the business operates according to existing legislation and that the business pays the correct VAT.	
I want to make sure the business achieves its projected targets so that I am paid a bonus.	
I want to be happy with the product or service I have purchased and don't want to be left feeling that I have been 'ripped off.'	
I want to be paid a healthy dividend at the end of the business year and hope that the share price of my stock rises.	
I want the organisation to be environmentally-friendly and provide the area with employment.	
I want my business to be well-respected and make excellent profits so that I can retire soon in the Maldives.	
I want the business to succeed using the support and advice I have provided.	



## **Stakeholders influence and impact**

Each stakeholder is in a position to influence the business as their actions will have a significant impact on the business organisation. The influence will differ for each stakeholder:

**Owners/shareholders:**

- can invest more or less capital which would allow the business to expand.
- They also make decisions about on matters such as products, staffing and growth which will affect the future success of the business.
- Shareholders can exercise their voting rights at AGMs to support or oppose the decisions made by the board of directors

**Employees:**

- can take industrial action such as going on strike if they are dissatisfied with the decisions taken by the business.
- The quality of work provided by staff eg how well customer service staff treat customers or the quality of products made will also influence whether the organisation is successful

**Banks:**

- can impact on the business by refusing to provide loans or charging higher interest rates or demanding the immediate repayment of overdrafts which means that the business may not have enough finance to carry out its plans

**Suppliers:**

- can influence by increasing the price of supplies which may mean that the business has to increase the selling price or reduce the amount of profit it earns

- can offer credit terms which means that the cash flow of the business improves as it can repay the supplier only after it has sold the goods
- the quality of the products it supplies as if the quality of the product is good then the overall quality of the finished product or service is likely to be high

#### **Customers:**

- customers can decide to buy elsewhere from the competitors of the business which means that the organisation will experience falling sales and profits which may even lead to job losses and eventual bankruptcy if the trend continues
- customers can give positive or negative feedback of their experience which may lead to the organisation making adjustments to the product or service. Negative feedback posted online eg for hotels and restaurants may lead to lost sales and damage to the reputation of a business

#### **National Government and Local Authorities:**

- the government can introduce new laws that will impact on the way a business operates and may cause a rise in costs eg health and safety legislation may force the business to change how it makes a product, or new employment regulations may mean that additional costs are incurred eg pension contributions or that workers are entitled to permanent rather than temporary employment contracts
- the government may change the taxation rate which may mean that a larger part of profits are paid as tax leaving less finance for the owners or for further investment in the business. Local authorities can increase the business rates that are charged to the organisation
- Local councils can refuse to grant planning permission to a business which means that it may not be able to expand from its current location and may have to relocate elsewhere
- Local authorities could close down a business if they don't comply with regulations eg in environmental health and food safety standards

## Local Community

- the people living in the local area could make complaints both to the local authority or MP regarding the way a business operates eg noise, pollution or congestion created by the organisation which generates bad publicity for the business
- local people can organise protests or demonstrations outside the organisation which will damage the reputation of the organisation

## Disagreements between stakeholders



Due to the demands placed on businesses by so many different stakeholders, it is no surprise that there are often disagreements and conflict between the different groups. Some of the more common areas of conflict are:

- **Shareholders and management**

Profit maximisation is often the most important objective of shareholders – resulting in large dividend payments for them. However, it is far more likely that the Sales Manager, for example, will aim to maximise sales rather than profit in order to earn high bonuses.

- **Customers and the business**

Customers are unlikely to remain loyal and repeat purchase from the business if the product that they have purchased is of poor quality and/or is poor value for money. However owners of the business may attempt to cut costs in order to maximise profits resulting in poorer quality products.

- **Suppliers and the business**

Suppliers are often complaining that businesses take too long to pay for supplies of raw materials that have been delivered to them and so may refuse to sell on credit. On the other hand, many businesses have been known to complain about the late

deliveries of raw materials and that stock from suppliers is of poor quality.

➤ **The community and the business**

The local community can often suffer at the hands of a large company through the effects of pollution, noise, congestion and the building of new factories in areas of outstanding beauty. However, if the business faces strong protests from residents and from pressure groups concerned about its actions, then it may decide to relocate to another area, causing much unemployment in the community it leaves behind.

**Progress Check 7**

Answer the following questions in sentences on A4 paper.

<b>Question</b>		<b>Marks</b>
1	Why might a sales manager see sales maximisation as her key business objective?	2
2	Linda Smith is the Girl Guide leader in her local church. What do you think her key objective is?	1
3	What is a stakeholder?	1
4	Explain the difference between internal and external stakeholders.	2
5	What would be the main objectives of a shareholder in a public limited company?	2
6	What would be the main objectives of a Trade Union?	2
7	Give one example of how the interests of 2 stakeholders might conflict.	2
8	Name 4 stakeholders in Scottish Gas plc.	4
<b>TOTAL MARKS</b>		<b>16</b>

## INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT



### External Environment

There are a number of key factors in the external environment of a business. All businesses must react efficiently to changes in its external environment – failure to do so could be fatal for the future of the business. External factors (PESTEC) can be summarised as follows:

<b>P</b>	Political Factors
<b>E</b>	Economic Factors
<b>S</b>	Social Factors
<b>T</b>	Technological Factors
<b>E</b>	Environmental Factors
<b>C</b>	Competitive Factors

### Political

**P**

The government can introduce laws which can affect every business in the UK. For example the government have set laws which ban advertising tobacco on television. Business must comply with laws or face heavy legal penalties. The government can also affect businesses by changing the amount of corporation tax charged on business profits. They have also introduced a minimum wage which employers must pay – this will affect their costs and profits.

**E**

### Economic

If there is a recession and unemployment is high, consumers will have less income, which will result in a loss of sales for businesses. In order to survive and encourage consumers to buy from them, businesses may have to ‘slash’ prices and accept a cut in profits just to survive.

**S**

### Social

In the UK there have been changes in the structure of the UK. More people are living longer and so the elderly are now making up a larger percentage of the total population. Business must take note of this and produce goods and services relevant to the needs of the population.

**T**

### Technological

Put simply, businesses must keep up with changes in technology. For example they must get involved in e-commerce, ie, selling goods and services using the Internet. They must also use technology and robots in production lines when making their products. Failure to keep up with technology could lead to a fall in sales and profits.

**E**

### Environmental

There is now increasing pressure for firms to be environmentally friendly, eg, bags for life and to minimise pollution.

Business can also be seriously disrupted with extreme weather conditions like storms, floods and snow.

**C**

### Competitive

All businesses face competition from other firms both in the UK and from foreign firms. For example, when the National Lottery was launched, Littlewoods Pools had to change the way they advertised to compete with the Lottery.

## INTERNAL FACTORS WHICH AFFECT A BUSINESS

The following internal factors could have an impact on the success of a business organisation.

Internal Factor	Example of how it can affect a business
Finance available	A lack of finance may mean that a business has to consider cost cutting measures such as staff redundancies or closing branches of the business.
Ability of staff	Expert and capable staff will be more productive in their work and help the business achieve a lot more.
Information	If a business carries out thorough market research then they will have good information which will help them meet the customer's needs.
ICT/Technology	The use of ICT and robots may mean that goods or services can be produced more efficiently and cheaper.
Good Management	A strong and capable management team will mean good decisions are made which will lead the business to success.
Changes in costs	Wage rises, increases in the cost of stock may mean that the business has to take a cut in profits.

## Progress Check 8

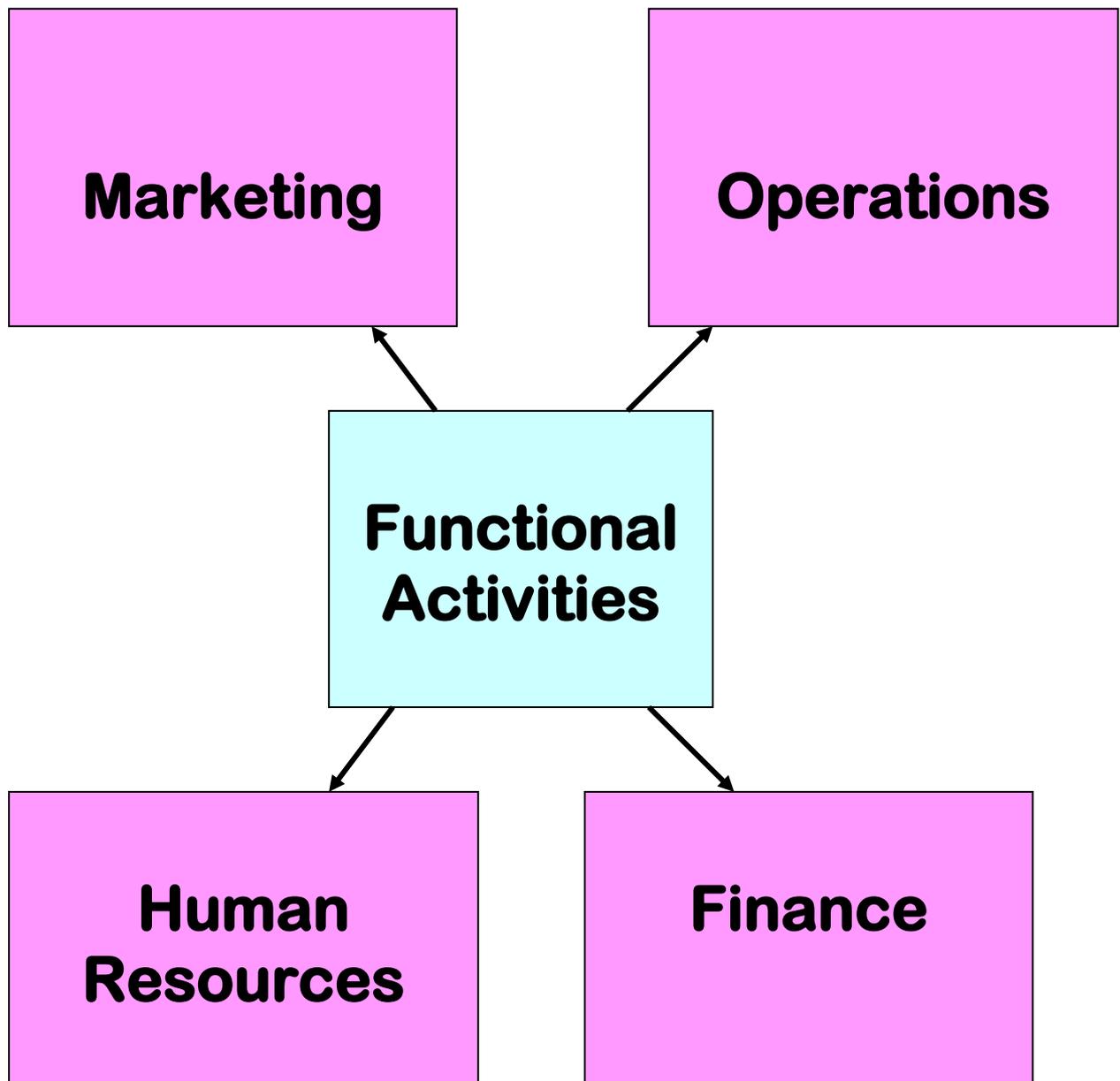
Answer the following questions in sentences on A4 paper.

<b>Question</b>		<b>Marks</b>
1	Explain the difference between an internal and external business environment.	4
2	The Scottish government passed legislation banning smoking in public places. What area of the external business environment (PESTEC) does this law refer to?	1
3	State 2 internal cost increases that a business may face and what could be the result of such cost increases for the business?	3
4	Why is it very important that a business carries out market research?	1
5	Name 3 businesses that make up the external competitive environment of Kentucky Fried Chicken (KFC).	3
6	State 2 external environmental factors that can impact on a business.	2
7	More large businesses are under pressure to be more environmentally friendly. What area of PESTEC is being referred to?	1
<b>TOTAL MARKS</b>		<b>15</b>

## FUNCTIONAL AREAS OF BUSINESS



Large business organisations usually have specific functional departments. The 4 main functional departments of business organisations are shown below.





## MARKETING

“Selling goods/services to customers that will satisfy their needs/wants and are of a quality such that the customer comes back but the goods do not!”

The Marketing Department is responsible for **promoting and advertising the product in order to maximise sales**. Tasks involved would be:

- **collecting information on customer’s needs** and collecting **information on competitors** goods/services eg the price their competitors charge.
- using the information to decide the right **marketing mix (the 4Ps)**
- passing the results of their research onto the **design and operations team**
- **Promoting and advertising the product** eg special offers, tv adverts etc



Marketing Departments in large organisations often have very large **budgets** available to them so that they can attract as many customers to their products as possible.

### Activities undertaken in the Marketing Department

A very important task undertaken in the Marketing department is the **PROMOTION** of the organisation’s products or services. Promotion simply means making sure that the customer knows about the organisations products and tempting them to purchase them.

There are a number of promotional strategies that a business can use including:

- advertising
- special offers
- free samples
- celebrity endorsement



## OPERATIONS (PRODUCTION)



This department **makes the product**. This involves changing the raw materials it requires to make its product into the finished article to sell to customers (think of the shop floor of a factory).

If the company **provide a service** eg Insurance Company, then the operations department does **not** manufacture a product eg the Insurance Company staff are responsible for asking the customer questions and setting up an insurance policy over the phone – the **operation** involves setting up an insurance policy.

### Activities undertaken in the Operations Department

#### Quality Control

The Operations department must ensure that customers receive products that are made to a high quality. This means that the product works in the way it should, first time, with no problems, has been made using high quality raw materials

and its physical appearance looks good. The product should be delivered to the customer on time.

Marks and Spencer's try to produce food products of the highest quality:



“This is not just food – this is M&S food”

**How does the Operations Department ensure Quality?**



Method	Description
Quality Assurance	This involves checking the product at various stages of the production process – any product that is not at the highest standard will be disregarded (scrapped) at this stage of production.
Quality Control	Once complete, all products should be checked individually – if a product is not up to standard then it should be scrapped.
Quality Management	This is where all employees in the organisation are trained to achieve the highest standards and always look for ways of improving production of the product. All employees take pride in the work that they do.
Quality Circles	This is where members of the organisation meet regularly to discuss any quality issues and ways of improving quality.



Quality can also be achieved by:

- using good quality raw materials
- employing high qualified and skilled employees
- investing in up-to-date machines, robots and technology

## HUMAN RESOURCES

The main focus of this functional area is the management and support of the workforce of a business. The human resource function includes a number of areas of responsibility. These include;

- **Recruiting** staff
- **Training** staff
- Looking after **staff welfare**
- Ensuring the organisation **complies with employment legislation**
- **Motivating** staff



### Activities undertaken in the Human Resources Department

#### Induction Training

The employer has a responsibility to make sure that the employee is shown around the organisation, introduced to colleagues and helped to learn their role. This is usually done via induction training.

Induction training should take place before the employee actually starts the job. It includes the following elements:

- a tour of the premises and the facilities, eg, toilets and canteen and other facilities
- introduction to other employees
- familiarisation with company policies, eg, Absence from Work Policy
- health and safety training, eg, fire routes
- the job – how to carry out the role. The day to day duties involved in the job.



Training should be on-going, with employees being taught new skills. The benefits of training are:

- staff become more competent at their jobs
- staff motivation increases
- staff become more productive
- there are fewer accidents
- staff become more flexible, i.e. they can do a variety of jobs

### Motivating Staff

The Human Resources Department need to ensure that all employees in the organisation are motivated and giving their very best effort. In order to motivate staff the following may be used:

- issue bonuses
- company perks, for example, private health care or company car
- Involve staff in profit sharing or share ownership schemes
- organise team-building and social events
- organise staff training



## FINANCE

The Finance Department deals with all the **money coming into and going out of the organisation**. They also pay staff wages and try to ensure that there is enough cash coming in to pay all the bills.

The main responsibilities of business finance are:

- dealing with all the **money** that comes into and leaves the organisation
- paying **staff wages**
- financial planning and **forecasting**
- monitoring and **controlling cash flow** and preparing cash budgets
- preparing the **final accounts** ie the trading, profit and loss account and balance sheet
- calculating **breaking even points**
- working out the **cost of a job**



### Activities undertaken in the Finance Department

The Finance Department will be responsible for the preparation of internal information to enable the business to make decisions. We will now consider 2 of these areas of work:

- Job Costing
- Budgeting

Job Costing is simply the process of calculating the cost of completing a job in order to determine a price that the customer will be happy to pay and will also enable the business to make a PROFIT.

**Job Cost Statement 1 – Mr and Mrs Johnstone**  
**Prepared on 12 December 20..**

	£
Direct Materials	6,000
Cost of Wages	4,500
Overheads	2,000
	-----
<b>TOTAL COST</b>	<b>12,500</b>
<b>Add Profit Margin (20%)</b>	<b>2,500</b>
	-----
<b>Price quoted to customer</b>	<b>15,000</b>



## BUDGETING

A cash budget is a forecast of cash coming into the business and cash going out of the business. A cash budget can be prepared for a few months, for example, for January-April, or it can be prepared for a full year – January-December.

Study the cash budget shown below.

<b><u>Cash Budget for June and July</u></b>		
	<u>June</u>	<u>July</u>
Opening Bank/Cash Balance	1,000	2,950
<b><u>Receipts</u></b>		
Cash Sales	2,000	3,000
Credit Sales	3,000	1,000
	-----	-----
	5,000	4,000
	-----	-----
<b><u>Payments</u></b>		
Wages	400	600
Advertising	450	2,000
Petrol	200	150
Purchases	2,000	2,500
	-----	-----
	3,050	5,250
	-----	-----
<b>Closing Bank/Cash Balance</b>	<b><u>2950</u></b>	<b><u>1700</u></b>

## HOW DO FUNCTIONAL DEPARTMENTS WORK TOGETHER?



Functional Departments do not work in isolation. Each department carries out a **specific activity** within the organisation. These activities should **complement each other** and enable the departments to work collectively for the good of the organisation.

It is the responsibility of senior managers to ensure that each department runs smoothly and that there is good communication between departments.

Here is an example of **how departments would work together** in setting the price of a product.

**The Marketing Department** would be responsible for researching the market – finding out if the consumer wants the product, what they would look for in a product, what price they would be willing to pay.



**The Operations Department** would be responsible for determining what raw materials would be required to make the product and what staff would be required.



**Human Resources** would recruit new staff if required.



**The Finance Department** would cost out the product and determine the mark-up required to achieve the desired profit.



**The Marketing Department** would be responsible for the advertising and promotion of the product.

## **FUNCTIONAL ACTIVITIES**

<b>ACTIVITY</b>	<b>DEPARTMENT RESPONSIBLE</b>
Training Staff	
Collecting all the cheques received and taking them to the bank.	
Preparing a flyer advertising a new promotion.	
Organising a team-building exercise for staff.	
Making the product.	
Carrying out market research.	
Checking the quality of the product during the production process.	
Calculating the profit made for the year.	
Interviewing staff	
Calculating the cost price of a product.	
Deciding the best place to sell the product.	
Promoting staff	
Calculating the break-even point and displaying this information in a chart.	
Setting up an insurance policy.	

# Marketing Unit



## MARKETING IN ACTION

### What is a market?

A market is a place where **BUYERS** and **SELLERS** come together. A market does not have to be a physical place, for example much buying and selling now takes place on-line using the Internet.

The table below consists of 2 columns – (A) and (B). Column A identifies a specific market. In column (B) you should try to give an example of a **SELLER** who operates within this market. The first 2 have been completed for you.

When consumers buy products they do so with the aim of maximising their satisfaction and enjoyment. Sellers aim to earn a profit when they sell their goods and services in the market place.



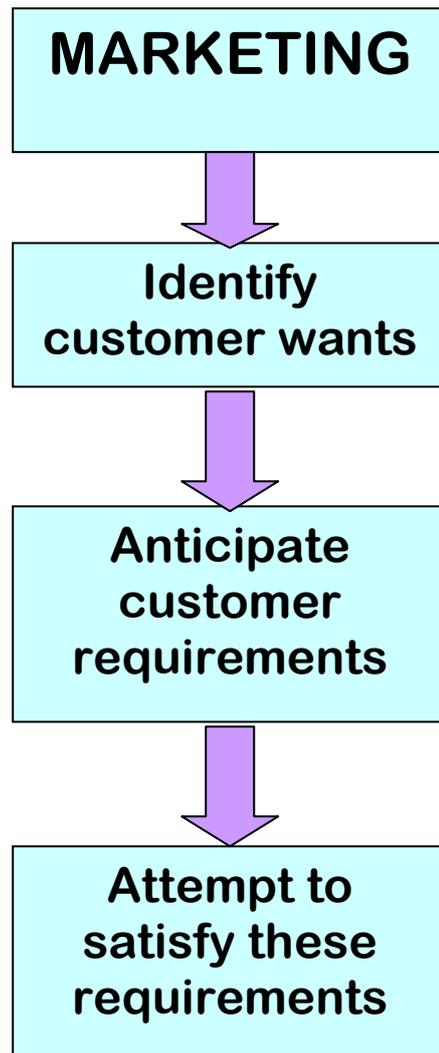
Satisfaction –v- Profit



### What is marketing?

Marketing is more than just advertising or selling a product. Marketing is about ensuring that the business organisation meets the demands, needs and wants of customers in a market.

This means businesses need to find out what consumers want and make a product they will like and buy.



The basic idea of marketing is that businesses survive and grow by meeting the needs and wants of consumers. This is known as the **marketing concept**.

### The Role and Importance of Marketing

The purpose of marketing is to:

- help to raise awareness of products and services on offer
- help to raise the organisation's profile and image in the market

- encourage customers to purchase their products
- target new customers
- retain existing customers
- assist the business to identify changes and tastes in the market
- increase profits
- increase market share
- marketing image

In addition to using logos, some companies will also use straplines or slogans. These are memorable phrases that communicate a product's appeal.

### Advertising

Advertising is the major way in which companies will promote their good or service. There are various methods of advertising.

Method	Description	Advantages	Disadvantages
	Advertising in the form of <b>adverts</b> between programs or <b>product placement</b> . Product placement is where products are shown in programs or films to encourage people to buy them eg have you noticed the type of car James Bond was driving in his last film?	Wide audience is reached.	People channel hop during commercials – avoiding the adverts – so money can be wasted. In addition, the cost of TV advertising is high eg the last Coca-Cola advert cost £3,000 per minute to show.

 <b>Radio</b>	<p>Most radio stations will play advertisements throughout the program, in-between music. This is a good way of generating income.</p>	<p>Specialist radio stations can target specific segments of the market eg if you want to advertise a new music player then it could be advertised on Galaxy Radio as their radio show cater for a younger audience.</p>	<p>Your product/service cannot be seen so you have to rely on the advert giving a good description.</p>
 <b>Cinema</b>	<p>The number of people attending the cinema has grown steadily over the years. Adverts are shown at the start of a film.</p>	<p>You have a captive audience – people cannot switch to another channel.  The type of film can be used to target a particular segment.</p>	<p>It can be expensive to make an advert to be shown in cinemas.</p>
 <b>Posters</b>	<p>Posters that appear at the side of roads, bus stops etc.</p>	<p>Can be placed at points on the road where people will be waiting with few distractions and little to do eg traffic lights – can easily get drivers/pedestrian's attention.</p>	<p>Messages have to be short because people may not have a long time to look at them.</p>
 <b>Newspapers</b>	<p>Adverts usually appear on the back pages of the newspaper or can be a supplement. Adverts can also be the outer pages of the newspaper.</p>	<p>Can be seen by a wide audience. Advertising in a local newspaper eg Glasgwegian, can be cheap compared to a national newspaper eg The Observer.</p>	<p>If the advert appears in the local newspaper then you are limiting the number of people who will see it.  Advertising in a national paper can be expensive.</p>

## Progress Check 1

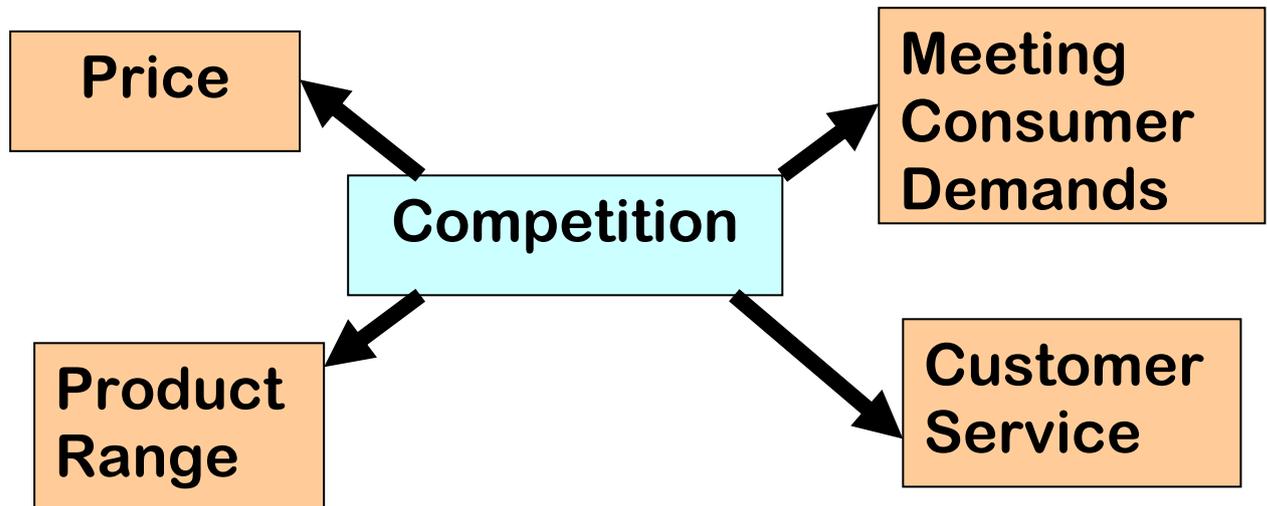
Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain the difference between a market and marketing.	2
2	What do consumers always attempt to do when they enter a market?	1
3	What, in most cases, is the main aim of the seller?	1
4	Some businesses invest a great deal of money in marketing their products. Outline 4 of the main purposes of marketing.	4
5	Explain the difference between a logo and a strapline.	2
6	List the 5 main methods that businesses use to advertise their products.	5
7	What would you consider to be the main advantage of advertising on television?	1
8	What is the main draw back for consumers when a business chooses to advertise on the radio?	1
<b>Total Marks</b>		<b>17</b>



## Markets and Competition

A competitive market will have lots of businesses all trying to win the same consumers. Competition can make markets work better by improving several factors.



### ➤ Price

If there is only one business in a market, that business can charge what ever price they like as consumers cannot buy from any other business. A firm in this situation is called a price-setter. However if there are several businesses in a market then each business will try to lower their price in order to attract consumers.

### ➤ Product Range

In order to attract and satisfy customer/consumer needs, the business will need to be competitive and make products that are in some way superior to their rivals. In addition, they have to keep up-dating and improving their products as consumers tastes and needs change.

➤ **Consumer Service**

Businesses that ensure they provide a helpful and friendly service to their customers/consumers should win their loyalty – these customers will continue to come back to the business as regular customers. If a consumer has a poor experience with a business, they are likely to remember this and shop elsewhere. In this case the consumer has been lost to a rival.

➤ **Meeting Consumer Demands**

All businesses need to know and understand the customers they are aiming their products at. If the business clearly understands the needs, desires and expectations of their customers/consumers then the business will be in a better position to ensure that their needs and expectations are satisfied.

It is important that all businesses continue to up-date their products on a regular basis if they are to respond effectively to the growing needs and desires of consumers.



**Market Research**

**Definition**

Market Research involves the constant gathering, recording and analysing of data about an organisation's product/services and its target market.

In simple terms a business organisation must ensure that their products meet the demands, needs and wants of customers in a market. Failure to do so could result in business failure

Market research may help a business answer the following questions:

- how large is the market?
- how fast is the market growing?
- are there any existing competitors and what share of the market do they hold?
- what makes consumers buy certain products?
- what prices consumers are prepared to pay for certain products?
- are there any gaps in the market for the introduction of new products?



### Methods of Market Research

DESK RESEARCH	
	Desk research is carried out by a researcher using <i>secondary</i> information in the form of published sources e.g. the Internet, Government department reports, market research reports published by companies such as Keynote, competitor websites, voters role and trade magazines. This information has been gathered for one purpose and is then used for another.
FIELD RESEARCH	
	This is carried out by a researcher out “in the field” to obtain first hand, <i>primary</i> information for the organisation to then use. The researcher goes out to the market and gathers the information him/herself. This way of gathering new, up-to-date information first hand can be very time consuming and expensive to carry out.



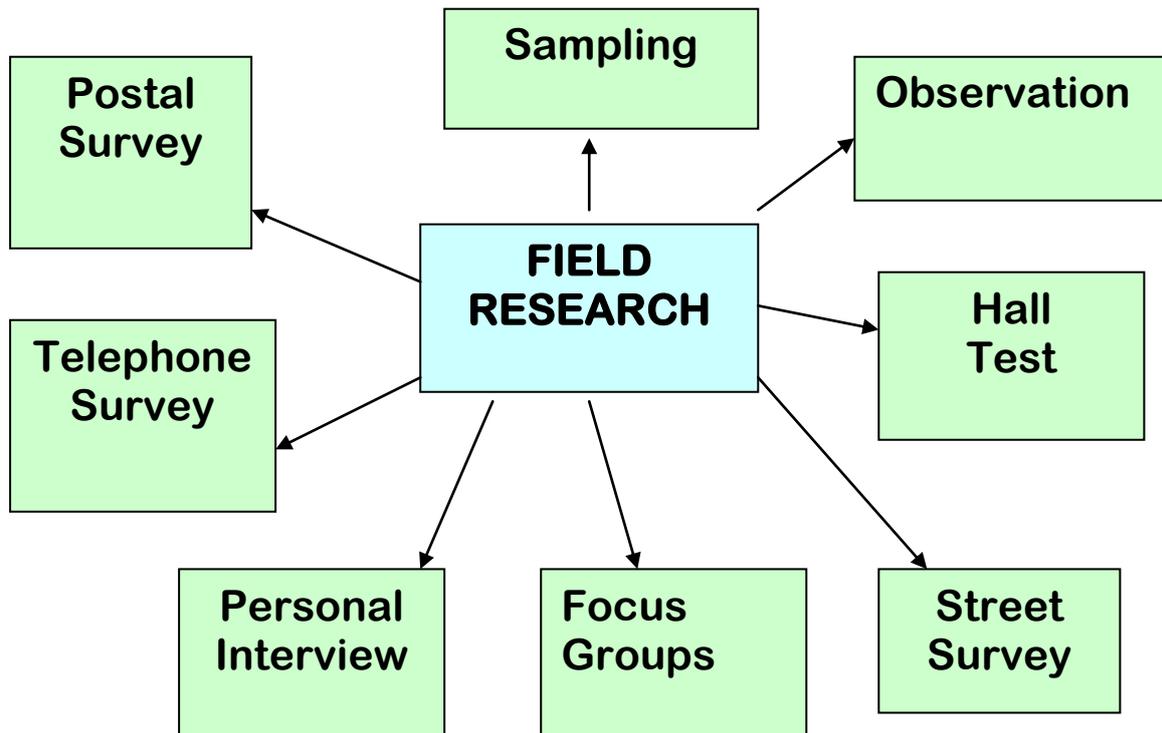
## Advantages of Field Research

- Information can be gathered for a specific purpose, eg, a survey to find out about consumers shopping habits.
- Information is relevant – it can be linked directly to a product or particular services or shops.
- Research can focus on what a business specifically wants to find out.
- Interviewers can explain questions to those being surveyed.
- Information gathered is up-to-date.

## Disadvantages of Field Research

- It can be very costly to set up.
- It can take a great deal of time and expense to train interviewers.
- A wide audience must be surveyed if the findings are to be realistic.
- Information needs to be analysed and interpreted after it has been collected.
- There is no guarantee that the views of those sampled reflect those of the whole country.
- The way questions are worded or asked can influence people's responses.

## DIFFERENT METHODS OF CONDUCTING FIELD RESEARCH



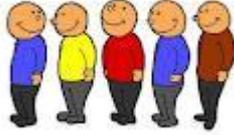
## ADVANTAGES AND DISADVANTAGES OF DIFFERENT METHODS OF FIELD RESEARCH



Method/Technique		Advantages	Disadvantages
<b>Personal Interview</b> 	This involves a face to face interview. A personal interview can be held in the street or by visiting homes	<ul style="list-style-type: none"><li>➤ Allows 2 way communication</li><li>➤ The researcher can encourage the respondent to answer</li><li>➤ Mistakes and misunderstandings can be dealt with</li></ul>	<ul style="list-style-type: none"><li>➤ Takes a lot of time and can be expensive</li><li>➤ Home interviews tend to be unpopular with consumers</li></ul>
<b>Telephone Survey</b> 	This involves a market researcher telephoning people at home and asking them questions	<ul style="list-style-type: none"><li>➤ Relatively inexpensive</li><li>➤ The response is immediate</li><li>➤ A large number of people can be surveyed very quickly</li></ul>	<ul style="list-style-type: none"><li>➤ Many people do not like strangers phoning them and asking questions</li><li>➤ Some people refuse and</li></ul>

<p><b>Postal Survey</b></p> 	<p>This involves a market researcher sending a questionnaire out through the post.</p>	<ul style="list-style-type: none"> <li>➤ Inexpensive as is it does not require a trained interviewer</li> </ul>	<p>just hang up</p> <ul style="list-style-type: none"> <li>➤ Questions must be simple and easy to answer</li> <li>➤ The response rate is very low as people tend to treat them as 'junk mail' and destroy them</li> <li>➤ Free gifts have to be offered as an incentive to encourage people to complete them</li> </ul>
---	--	---	---

Method/Technique		Advantages	Disadvantages
<p><b>Focus Group</b></p> 	<p>This involves specially selected groups of people. It is lead by an experienced chairperson who puts forward points to encourage discussion</p>	<ul style="list-style-type: none"> <li>➤ This provides an opportunity to collect qualitative information in the form of opinions, feelings and attitudes.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Qualitative information can be very difficult to analyse</li> </ul>
<p><b>Hall Test</b></p> 	<p>This involves a product being given to customers to try and then obtain their opinions and views on it.</p>	<ul style="list-style-type: none"> <li>➤ Customers get to try the product and so can give good feedback</li> <li>➤ Fairly inexpensive to carry out</li> </ul>	<ul style="list-style-type: none"> <li>➤ Customers may feel obliged to give positive feedback that the company wishes to hear</li> <li>➤ Again difficult to analyse qualitative</li> </ul>

			information
<b>Observation</b> 	This involves watching something and recording what happens – it could be that the observer has to count how many times something happens	<ul style="list-style-type: none"><li>➤ Those being observed may be unaware so respond in a natural way</li><li>➤ Quantitative information is gathered which is easier to analyse than qualitative information</li></ul>	<ul style="list-style-type: none"><li>➤ Those being watched cannot be asked or give an explanation as to why they did or did not do something</li></ul>
<b>Sampling*</b> 	As you cannot sample every person you have to select a sample – this could be done randomly.	<ul style="list-style-type: none"><li>➤ It is relatively quick to carry out</li><li>➤ It is relatively inexpensive</li></ul>	<ul style="list-style-type: none"><li>➤ The sample chosen may not be representative of everyone so it could be inaccurate</li></ul>

\*Sampling can be done randomly using people from the electoral role – people are simply chosen at random. Alternatively quota sampling may be used where the interviewer only selects people who meet certain characteristics, eg, age or sex.

## **Task 15**

### **Progress Check 2**

**Answer the following questions in sentences on A4 paper.**

<b>Question</b>		<b>Marks</b>
<b>1</b>	<b>What is meant by the term competitive market?</b>	<b>1</b>
<b>2</b>	<b>Why is Customer Service very important to the success of a business organisation?</b>	<b>2</b>
<b>3</b>	<b>Explain the term 'market research'.</b>	<b>1</b>
<b>4</b>	<b>Outline 4 reasons why market research is very important to the success of a business organisation.</b>	<b>4</b>
<b>5</b>	<b>Explain the difference between field research and desk research.</b>	<b>2</b>
<b>6</b>	<b>State 2 advantages and 2 disadvantages of field research.</b>	<b>4</b>
<b>7</b>	<b>Outline 4 different methods of conducting field research.</b>	<b>4</b>
<b>8</b>	<b>Explain the difference between qualitative information and quantitative information.</b>	<b>2</b>
<b>Total Marks</b>		<b>20</b>

## Electronic/Online Surveys

As more and more homes have Internet access more business organisations are using ICT and the Internet to reach their customers and carry out market research.



Electronic/online surveys involve creating and then sending a questionnaire via email to consumers.

Advantages	Disadvantages
As with postal surveys, this is an inexpensive method of market research It can have a quick and healthy response rate	The responses may be too brief for them to be meaningful There is little control over WHO answers some of the questionnaires and so some returns are useless.

## Comparison of Survey Methods

Method	Response rate	Cost	Time	Non response bias
Postal	Low	Low	Slow	High
Phone	Moderate	Moderate	Fast	Moderate
Electronic/online	Moderate	Low	Fast	High

## EPOS (Electronic Point of Sale)

This is used by retailers when a loyalty card such as Nectar is swiped through their electronic tills. Information about the consumers' shopping habits can be gathered this way.



**Advantages include:**

- It can give accurate consumer profiles
- It allows retailers to offer promotions tailored to consumer's needs

**Disadvantages include:**

- It can be very expensive to set up the system
- Also it is time consuming to set it up

Tesco use a club card system to increase their knowledge of what their customer want and to try and gain their loyalty.



**Differentiated and Undifferentiated Marketing**

- **Differentiated marketing** involves targeting each market segment with a product or service with a marketing mix specifically designed to match the needs of the consumers within the segment. For example, some car manufacturers provide different cars for different consumers – The Ford Focus is aimed at consumers with young children, whereas the Mazda MX5 is aimed at single people or couples with no children.
- **Undifferentiated or mass marketing** involves selling products or services to the whole market. This is used as a strategy where the organisation assumes consumers; needs are similar if not identical. Manufacturers of TV sets usually target the whole market.

## **Market Segmentation**

This involves splitting consumers into different groups and then marketing a product/service directly at that group.

Consumers can be grouped in many ways such as:

1	Social class	2	Age
3	Family lifestyle	4	Occupation
5	Income	6	Gender
7	Geographical location	8	Religion

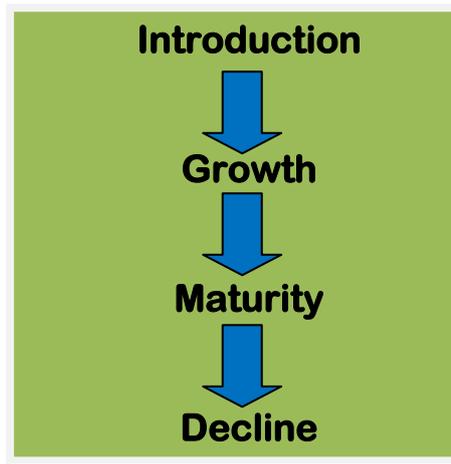
**Market segmentation can be useful to an organisation because:**

- The organisation can develop products which meet the needs of specific consumers;
- Appropriate prices can be set which specific consumers can afford to pay but still allow the organisation to earn a profit;
- Appropriate promotions and advertising can be developed to target specific consumers;
- It will ensure that products and services are sold in the appropriate location/places for the targeted consumers.

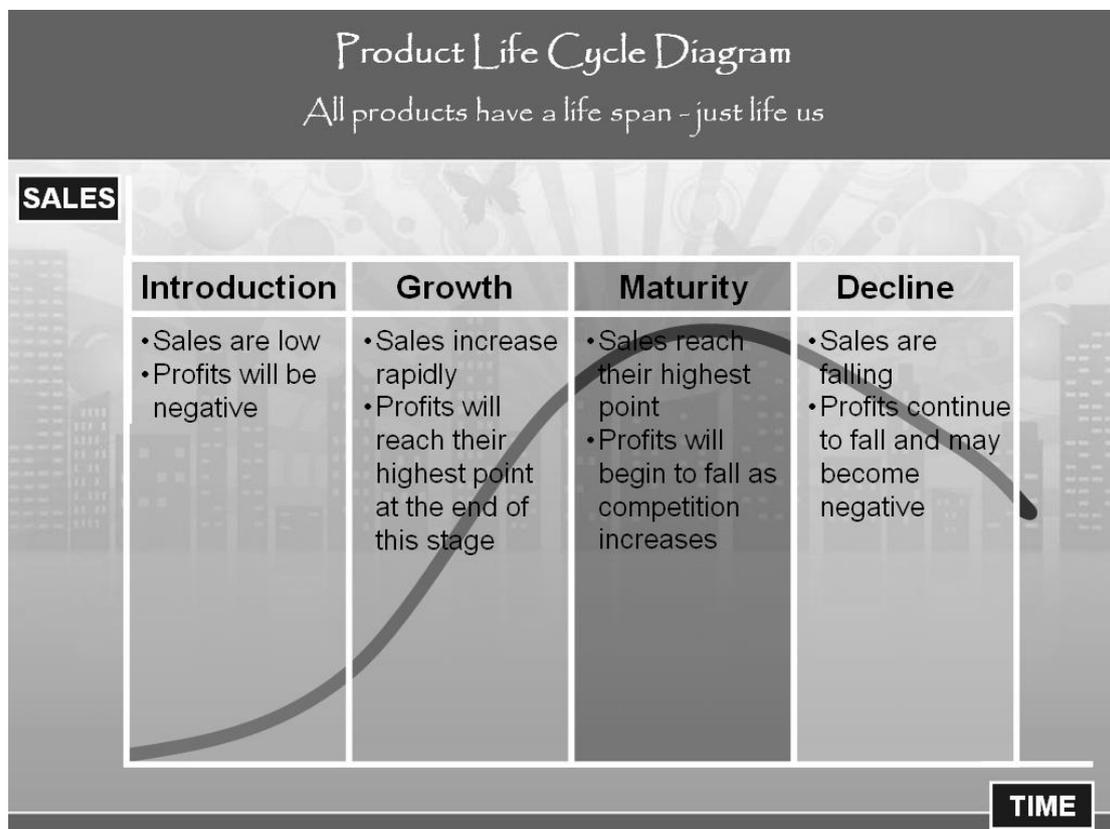


## Product Life Cycle

The product life cycle shows the different stages that a new product passes through over time and the sales that can be expected at each stage. There are generally four stages in any product life cycle:



These are illustrated in the diagram below



### **Introduction**

The product is first launched on the market. Costs of advertising and promoting the product may be high at this stage. The business has to invest time and money ensuring the consumer becomes aware of the new product. If the product is unique, there will be few competitors and usually the product will command a high price.

### **Growth**

Sales are increasing steadily as the consumers knowledge of the product grows. A few competitors may launch their own versions of the product. These competitors may pose a threat to the business.

### **Maturity**

The product becomes commonplace in the market, growth of sales start to slow down as competition from other firms increases. As the market becomes saturated, competition becomes fierce and prices tumble. An example would be DVD players – there are so many versions of these on the market that the price has fallen dramatically.

### **Decline**

Consumer tastes change, technology changes and new more advanced products are launched. Consumers are no longer impressed by the product and stop purchasing it. Sales fall, prices become very low and eventually the product is withdrawn from the market as they are no longer profitable. Examples include videos/video recorders and typewriters.

The length of the product life cycle depends on the product. Car models have a life cycle of approximately five years; latest clothes fashions often have a life cycle of a few months and CD singles tend to have a life cycle of a few weeks.

At the decline stage the business has to decide whether to withdraw the product or use an ***extension strategy*** to boost sales.

Extension strategies aim to increase the life of the product and could involve:

- Introducing new flavours, eg, Walkers crisps;
- Changing the use of the product, eg, Lucozade was originally marketed as a drink for people who were ill, now it is marketed as a sports energy drink;
- Rebranding the product, eg, Marathon bars changed their name to Snickers and Opal Fruits changed to Starburst;
- Large TV advertising campaigns, eg, Cadbury's adverts for Dairy Milk chocolate reminded the public of the product and sales rose again.

Lucozade was first introduced in 1927. From its introduction until 1980 it was sold as a drink suitable for those who were ill or recovering from illness. 1985 first saw Lucozade being marketed as an energy drink to replace lost energy and adverts featured famous sportsman at the time, Daley Thompson. This represented the shift in Lucozade from being marketed as a drink to be used when suffering from ill health to one whose use was as a sports energy replacement drink.



Some products, for example Mars Bars, Persil washing powder, Heinz Baked Beans and Coca Cola appear to never reach the decline stage.



This is because they have:

- Used successful extension strategies;
- Employed constant brand promotion;
- Developed a strong brand loyalty from their customers;
- No close rivals;
- Established high status and have a good reputation in the market.

### Progress Check 3

Answer the following questions in sentences on A4 paper.

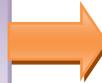
Question		Marks
1	State one advantage and one disadvantage of using on-line/electronic surveys to gather information.	2
2	Explain the difference between differentiated and undifferentiated marketing techniques.	4
3	Market segmentation involves splitting consumers into different groups. State 4 ways in which consumers may be grouped.	4
4	Outline the benefits to an organisation of using market segmentation.	4
5	All products have a life span. What are the 4 main stages of the product life cycle?	4
6	Describe the features of each stage of the product life cycle identified in question 5 above.	8
7	Draw a fully labelled Product Life Cycle diagram.	4
8	Outline one example of an extension strategy that could be used to extend the life of a product.	2
<b>Total Marks</b>		<b>32</b>



# THE MARKETING MIX

## INTRODUCTION

**P**rice



This is how much a business charges for each product.

**P**roduct



This is the actual item (good or service) the business produces and sells.

**P**lace



This is the way the business gets the product to the customer and where it is sold.

**P**romotion



This is the way the customer is made aware of the product and the ways they are encouraged to buy it.

## **Marketing Mix**

Marketing involves identifying consumer needs and wants and attempting to satisfy them. For any product to be marketed successfully, the business must decide on the correct marketing mix, sometimes referred to as the four P's:

- Product
- Price
- Place
- Promotion

**Getting these 4 factors right is the key to marketing success!**

### **Remember!**

<b>Product</b>	The product/service that the customer purchases. The product includes the packaging, image, guarantee and the after sales service, eg, carrying out repairs.
<b>Price</b>	The actual amount paid by the customer to the seller.
<b>Place</b>	Where the customer purchases the product/service.
<b>Promotion</b>	The way in which a customer is made aware of a product/service and is persuaded to buy it. Promotion includes advertising and sales promotion.

Let's now consider each element of the marketing mix:

# PRODUCT



A product is a good or service that is sold to consumers. Consumers buy a good because it meets a need and/or satisfies a want. If a product is to be successful it must meet the needs and/or wants of the consumer!

A product is said to have three elements.



## Core Product

What the product actually does; its main function and so what makes it useful for the consumer. For example, the benefit of a car is a convenient method of transport.

## Augmented Product

These are the additional extras which add to the value of the product in the eyes of the consumer, eg, extended warranties, free road tax and insurance and after sales service.

## Actual Product

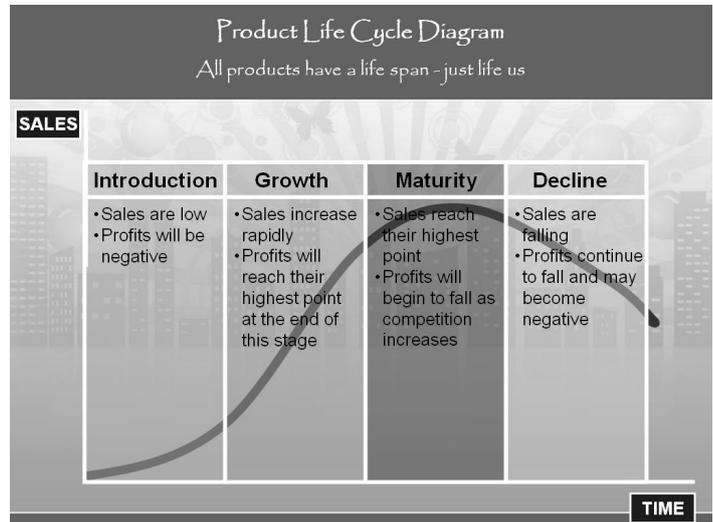
This is the tangible or physical product and includes the colour, style and quality. For example a car is the actual product you purchase and drive.

## **Product Mix**

A firm's product mix is the range of products that it produces. For example, Baxters Food Group has a product mix which includes jams, sauces and soups.

By identifying the stage in the Product Life Cycle of each of their products, a business can plan when to introduce new products as old products go into decline.

Most businesses will have a range of products in order to spread the risk of one product failing. If a firm only produced one product and it failed, the whole business could fail. In addition a wide range of products can:



- Meet the needs of different market segments
- Increase profits
- Increase the status and reputation of the firm

## **Branding**

A brand is a name, symbol, design or combination of these given to a product by the producer which is intended to identify the goods produced.

A brand may relate to a specific product, eg, Irn Bru or may refer to the whole company, for example, Heinz.

Once a brand has been established the business has to work hard to maintain its high public profile.



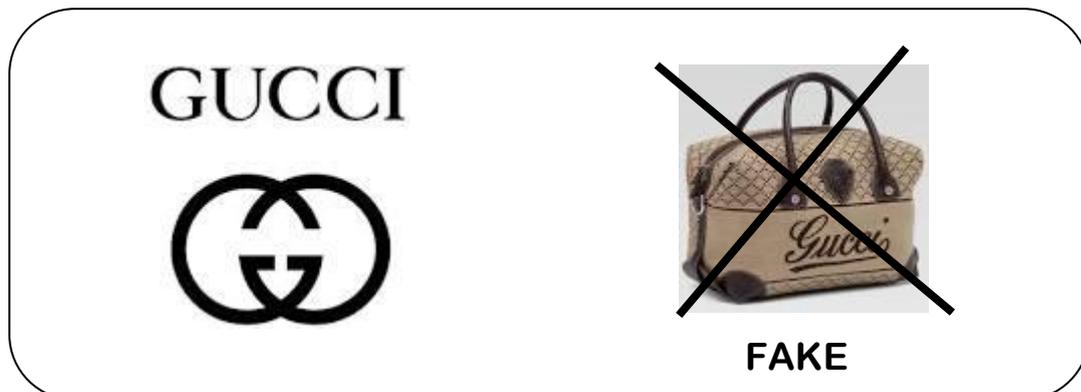
Some brands are so powerful that they are generally used to describe a product. For example most consumers simply refer to correction fluid as Tipp-Ex, vacuum cleaners as Hoovers and sticky tape as Sellotape. There are many varieties of these products on the market but market leaders have been so successful at branding that these products are simply known by the brand name.



### What are the advantages of successful branding?

- In the long term, a business can save money on marketing once the product becomes a household name.
- Higher prices can be charged when consumers become loyal to the brand.
- It is really easy to launch new products or new versions of products with the same brand name.

Some brands especially clothing and expensive accessories are easier to copy and so fake versions may appear on the market – this can be expensive for a business to fight against!



A poor brand may affect the whole range of products produced by the same manufacturer.

A consumer may see a well-known brand as a guarantee of high quality. Some brands are easily recognisable and there might be an element of “snob value” in a consumer using certain brands.

Some loyal consumers are likely to be less sensitive to price increases as they refuse to buy rival products even if they are significantly cheaper.



# PRICE



Price must be set at a level:

- that consumers are willing to pay for the good or service;
- meet all the costs of the business and also ;
- enable the business to make a profit.

All businesses need to remember price affects sales. Lowering the price may increase consumer demands but if the price is set too low, consumers may think it is a lower quality product.



It is also important to look at prices competitors are charging particularly in more competitive markets. Most businesses would set their prices to be in line with or slightly lower than competitors in an attempt to attract them to their product instead. Both Asda and Tesco manufacture their own brands of tomato soup. As you can see below there is not much difference in price.



Pricing decisions are also made when competitors change their prices.

Overall the price a business charges for a product should be based on what the consumer is prepared to pay for it. Other factors that will be taken into account when setting price are:

- The aims of the business, for example is the aim to maximise profits? If so price is likely to be high.
- Prices charged by competitors
- The position of the product in its life cycle - at the decline stage price is usually lower
- The time of year – is the product seasonal, for example strawberries are usually much cheaper in the summer
- The place where the product is sold, for example businesses often lower prices if consumers buy on the Internet.
- The market segment the product is aimed at, for example some cars are designed, manufactured and marketed at lower income consumers.

## Pricing Strategies

<p><b>Penetration Pricing</b></p> 	<p>This method of pricing is used when a business wants to enter a market where there are lots of competitors selling similar products. The firm will set its price very low (below the price of competitors) when it enters the market. Once the business and its product become popular with customers they will then raise their prices.</p>
<p><b>Destroyer Pricing</b></p> 	<p>This is used to eliminate the competition. Prices are lowered to such a degree that some competitors cannot compete and are forced to leave the market. Once out of the market the dominant firm raises price again.</p>
<p><b>Promotional Pricing</b></p> 	<p>Prices are reduced for a short period of time to shift goods off the shelves that may not be selling as fast as the business would like.</p>
<p><b>Premium Pricing</b></p> 	<p>This is when high prices for a product are set and kept high to create a high class image. The product is being marketed to consumers with a high income and an 'eye for quality'.</p>

<p><b>Competitive Pricing</b></p> 	<p>This strategy encourages businesses in the same market to charge the same or similar prices – this prevents a price war. The firms deliberately agree not to compete on price. Instead they compete through advertising and offering free gifts etc. Supermarkets and petrol stations sometimes use this strategy.</p>
<p><b>Price Discrimination</b></p> 	<p>This is when a business charge different prices for the same product or service at different times of the year or day. For example Thomas Cook increase the cost of holidays during June - August and then lower them around October time. BT charge higher prices for phone calls during the day than they charge for phone calls made in the evening.</p>
<p><b>Loss Leaders</b></p> 	<p>Sometimes a business will sell some of their products at a loss. The aim is to attract customers into the store. It is hoped that customers will then spend money buying other products and so the business will still make an overall product.</p>
<p><b>Market Skimming</b></p> 	<p>This is when a business puts a new product on the market at a high price. The business aims to make a really high profit to cover the cost of research and designing the product. However, once competition enters the market, prices will then be forced back down. This tends to be used with electronic products such as ipads.</p>

## Progress Check 4

Answer the following questions in sentences on A4 paper.

Question		Marks
1	The marketing mix is often referred to as the 4 P's. What are the 4 P's?	4
2	Explain the reasons why most businesses tend to offer a range of products to consumers.	2
3	Outline 2 advantages to a business of offering a range of different products to consumers.	2
4	Explain what is meant by the term 'branding' as used in marketing.	2
5	Describe the main advantages to a business of branding a product.	6
6	Outline the 3 main factors that should be taken into account when a business is setting price.	3
7	Describe any 4 pricing strategies that may be adopted by a business and suggest when they would use each strategy.	8
8	Suggest how the Internet can be used by a business to help set prices.	1
<b>Total Marks</b>		<b>28</b>



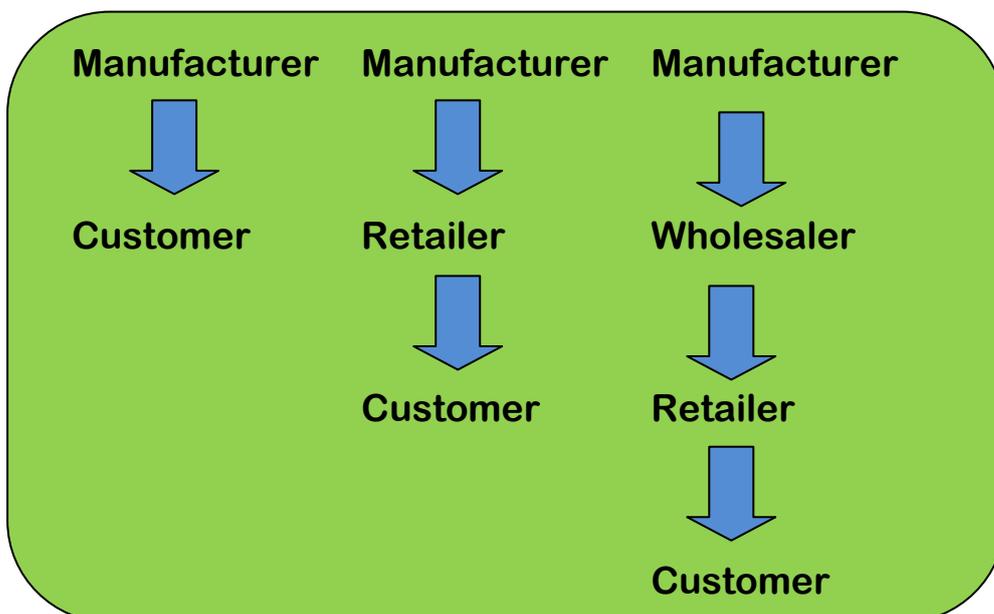
# PLACE



This is the process by which the product reaches the market and ultimately the consumer. A business has to decide on the most cost effective way to make their products easily available to consumers. This is sometimes referred to as the:

## CHANNEL OF DISTRIBUTION

A product may reach the consumer following 3 main routes as shown in the table below:



What is meant by the following terms?

- Manufacturer
- Wholesaler
- Retailer



Term	Definition
Manufacturer	
Wholesaler	
Retailer	

What CHANNEL OF DISTRIBUTION should a business use?

This will depend on a number of factors:

**The Product**

Where a product is designed and made to meet a customer's special requirements, it will normally be sold directly from the manufacturer to the customer. Where products are mass produced like food products they will normally reach the customer after passing through a wholesaler and retailer.



## **Reliability**

When a wholesaler or retailer proves to be unreliable the manufacturer may decide to sell directly to the customer and cut out the 'middle-men'.



## **Distribution Capability**

If the manufacturer does not possess a strong and well trained sales team and suitable delivery vans then they may have to distribute their products through a wholesaler or retailer.



## **Finance**

When a manufacturer has sufficient money to develop their own CHANNEL OF DISTRIBUTION this will be their preferred option. However, when money is limited, they are more likely to distribute their goods and services to consumers through a wholesaler or retailer.



## **Methods of selling**

<p><b>Internet (E-commerce)</b></p> 	<p>Many business organisations sell their goods and services using the internet. Customers make payment using their debit or credit card. This allows businesses to reach customers all over the world. Businesses devote a lot of time and money designing attractive web-sites.</p>
<p><b>Telesales and Mail Order</b></p>  	<p>There has been a rapid growth in the use of call centres by many businesses. Cold calling is a method of direct communication which allows a business to reach customers and market their products without using a high street retailer.</p> <p>Many businesses are also using mail order. They invest money producing glossy catalogues and consumers can then place orders directly with the business. This often reduces the cost of distribution as fewer shops and staff are required.</p>
<p><b>Newspaper and magazine selling</b></p> 	<p>Some businesses advertise their products in newspapers and magazines and provide the opportunity for consumers to complete coupons, which they can send to the company to order goods and services.</p>

## **Influences on Location**

When choosing a location for a business, there are certain points to consider which can affect its success or failure.

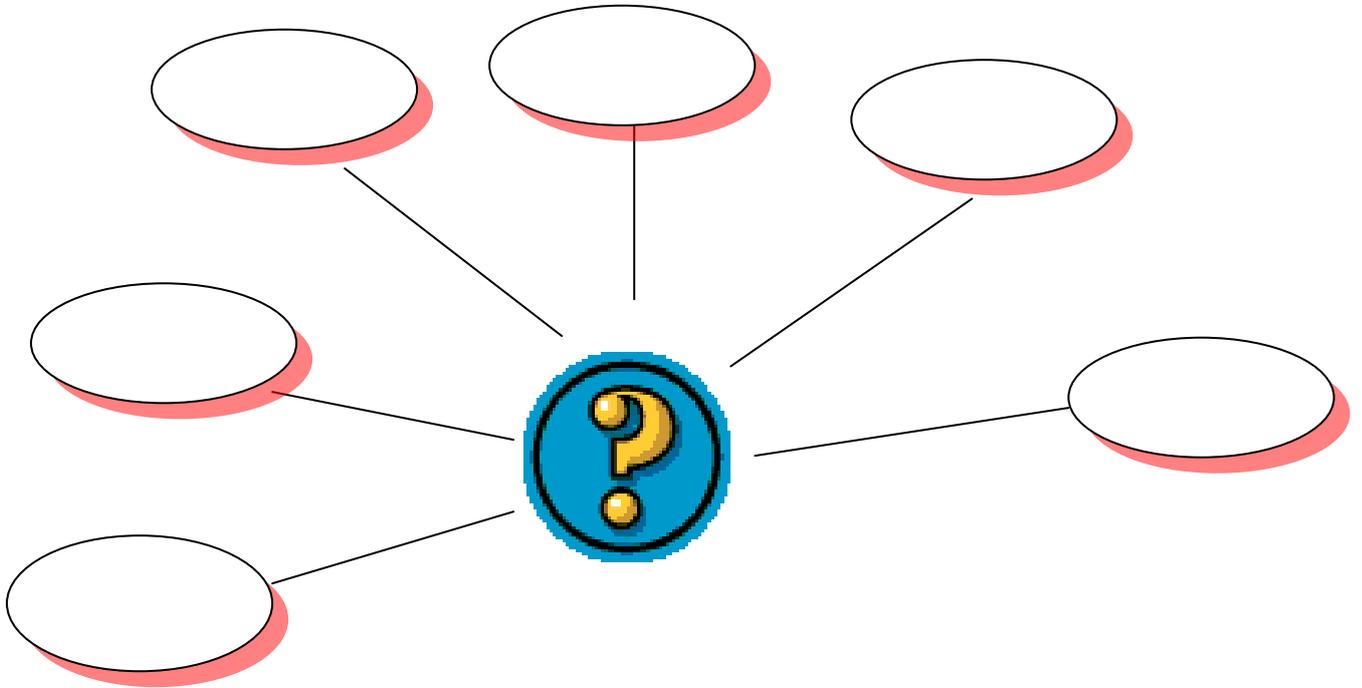
These include:

Availability of Labour	Infrastructure, ie, rail, road links	Availability of Capital
Government Loans and Grants	Distance to Market	Rival Businesses
<b>Factors Influencing Location</b>		
Health and Safety	Source of Raw Material	Transport Costs
European Union Grants	Telecommunications, eg, fibre optic & broadband	Information Costs

**A business which locates successfully can achieve higher sales, lower costs and high profits.**

Complete the diagram below with the missing business location factors.

**Business Location Factors**





## **Retailing**

### **What are the trends?**

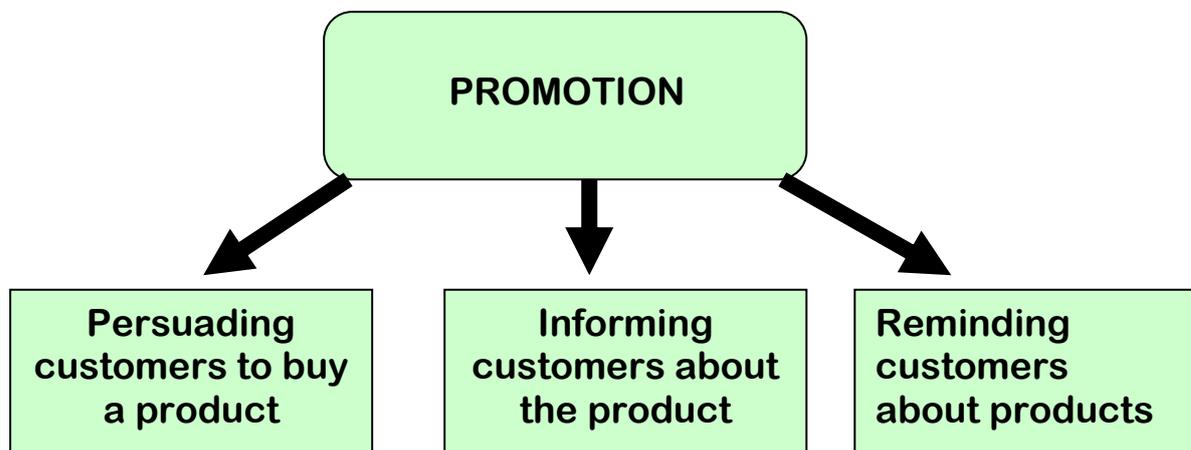
- There has been a big increase in out-of-town shopping with the development of retail parks such as Braehead, Silverburn and the Glasgow Fort. This provides convenience for both consumers and sellers – it is good to have all shops under the one roof.
- Many retail parks now have extended opening hours, late into the evening and indeed many supermarkets are open 24-7.
- Supermarkets are now extending their product mix to include petrol, pharmacy, photography, and opticians.
- Most retailers now use the Internet to encourage on-line shopping.



# PROMOTION



This is how the business informs the consumers about their products and how they persuade them to purchase the products.



Promotion refers to the methods used by a business to make consumers aware of its product.

There are a number of promotional strategies that a business can use including:

- Advertising
- Special offers
- Free samples
- Celebrity endorsement

Look at the table on the next page.

<b>Promotion method</b>	<b>Description</b>
Advertising (eg TV, website, newspaper)	Advertising involves letting people know that a product exists and trying to persuade them to buy it. Advertising is used to inform people about the product; how much it costs and what it does. Advertising is important; otherwise, people wouldn't know that a product exists.
Special offers (eg discounts)	Discounts provide customers with money off a product when they buy it. For example, they might get 20% off or if they buy one they get one free (BOGOF).
Free samples	<p>Some businesses give out free samples or tasters of products to see if people like them. If they do like them, they might decide to buy the products.</p> <p>For example, some perfume shops give out free samples of perfumes for people to try. Without the free samples, customers might never know if they liked them!</p>
Celebrity endorsement	A celebrity is used to promote a business and its products. For example, Jamie Oliver has been used to promote Sainsbury's.

Advertising is just one of the means by which a business can create publicity around their products/services. There are 4 main types of advertising:

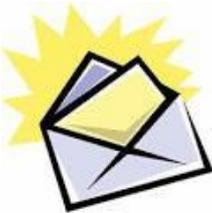
<b>Informative adverts</b>	These are used to inform the consumer about the good or service being sold.
<b>Persuasive adverts</b>	These are used to persuade customers to buy the good or service by giving the impression that it is desirable to own these products or use these services.
<b>Product endorsement</b>	This is where celebrities or sports professionals are paid to wear and use products. For example Adidas pay David Beckham to wear their products.
<b>Product placement</b>	This is when a business pays for its product to appear in a movie or TV programme, eg, James Bond drove a BMW car.



## Methods of Advertising – Re-cap

Media	Advantages	Disadvantages
<b>TV</b> 	<ul style="list-style-type: none"><li>• You can reach many consumers</li><li>• You can demonstrate the product</li><li>• Regular adverts will increase the profile of the product</li></ul>	<ul style="list-style-type: none"><li>• Very expensive</li><li>• Many viewers 'channel hop' during the adverts</li><li>• The advert may not have to be seen by all consumers (market segments)</li></ul>
<b>Newspapers</b> 	<ul style="list-style-type: none"><li>• You can reach many consumers</li><li>• Products can be aimed at certain consumers (market segments) by choosing the correct paper</li><li>• Readers can cut out and complete coupons etc.</li></ul>	<ul style="list-style-type: none"><li>• Adverts are often in black and white</li><li>• Can be expensive if placed in newspapers with a large circulation</li><li>• Often in black and white and do not demonstrate the product in use.</li></ul>

Media	Advantages	Disadvantages
<b>Magazines</b> 	<ul style="list-style-type: none"><li>• Often in colour and have a better impact</li><li>• Can target certain consumers (market segments) by</li></ul>	<ul style="list-style-type: none"><li>• Can be expensive to advertise in magazines</li><li>• Competitors will usually also be advertising in these magazines</li></ul>

	<p>advertising in certain magazines</p> <ul style="list-style-type: none"><li>• Magazines are usually kept for future reference</li></ul>	
<p><b>Radio</b></p> 	<ul style="list-style-type: none"><li>• Much cheaper than TV</li><li>• Captive audience as listeners tend not to 'channel hop' during adverts.</li></ul>	<ul style="list-style-type: none"><li>• Listeners often do not pay attention during the adverts</li><li>• Sound only, listeners cannot see the product and have to use their imagination</li></ul>
<p><b>Cinema</b></p> 	<ul style="list-style-type: none"><li>• Captive audience, can't channel hop or avoid the advert</li></ul>	<ul style="list-style-type: none"><li>• Limited audience</li><li>• Consumers tend to remember the film rather than the advert</li></ul>
<p><b>Direct Mail</b></p> 	<ul style="list-style-type: none"><li>• Relatively cheap</li><li>• Can target particular consumers (market segments)</li></ul>	<ul style="list-style-type: none"><li>• Many consumers tend to dislike 'junk mail' and destroy without reading.</li></ul>

Media	Advantages	Disadvantages
<p><b>Bill Boards</b></p> 	<ul style="list-style-type: none"><li>• Usually in busy locations so large audience</li><li>• Passers-by will frequently see the advert</li></ul>	<ul style="list-style-type: none"><li>• Deteriorate quickly due to the weather</li><li>• Often suffer from vandalism</li></ul>

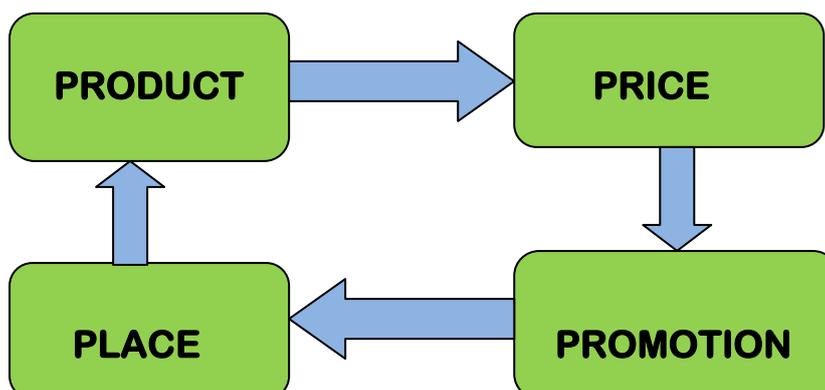
<b>Internet</b> 	<ul style="list-style-type: none"><li>• Relatively cheap</li><li>• Adverts can be changed and up-dated quickly</li><li>• Adverts can target certain consumers (market segments)</li></ul>	<ul style="list-style-type: none"><li>• Web surfers tend to ignore adverts</li></ul>
--	---	--

**The choice of advertising media depends on:**

- The product to be advertised;
- The consumers (market segment) to be targeted;
- The type of coverage required (eg is it a product to be sold locally or nationally?);
- The finance available to the business for advertising;
- The method of advertising used by competitors;
- Legal restrictions (eg, tobacco products cannot be advertised on TV).

**SUMMARY – THE MARKETING MIX**

Using the right combination of the 4P's should improve the marketing of a product and so increase profit for a business.



## The Marketing Mix – Example

### Apple iPod

#### PRODUCT

Apple (iPod) –  
Originally launched in  
2001

**Product Range** -  
cases, speakers,  
docking stations;  
iDucks; iPod  
minis/nanos/ photo/  
different colour  
speakers, iPod socks,  
iPhone

**Target Market** 12-55  
year olds

High quality product



#### PRICE

When first  
introduced it took  
advantage of its  
new uniqueness  
and being the latest  
must have item that  
was seen in  
magazines and  
music videos.

**Skimming** and  
**premium** pricing  
were used to  
maximise sales.

As novelty wore off,  
price came down  
and range from £49  
for a 1 gig iPod  
shuffle to £179 for a  
30 gig iPod video

#### PLACE

Originally sold on the  
Internet, mail order,  
and specialist shops  
worldwide

Now also sold in  
supermarkets like  
Tesco and Asda

#### PROMOTION

Adverts – their  
brand, logo and use  
of the colour white  
is unique and their  
brand name is well  
known.

TV, billboards,  
magazines,  
newspapers

## Progress Check 5

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Identify and describe 3 methods of promotion that can be used by an organisation in order to attract customers.	6
2	Identify and describe 3 stages of the product life cycle.	6
3	Describe the role of the Marketing Department in an organisation.	4
4	Identify and describe 2 methods of sampling the Marketing Department could use.	4
5	Describe 3 channels of distribution which an organisation could use.	3
6	Outline factors that might be considered when choosing a channel of distribution.	3
<b>Total Marks</b>		<b>26</b>

### PRODUCT ORIENTATION – ASSET-LED

Firms with a product orientated approach to marketing and selling, try to sell whatever they can make, without trying to find out if it's what the consumers want. They simply look at the assets and strengths of their business to determine what products they should make and sell. Apple Macintosh is a good example of a business that has had great success in a long line of product led launches.



Apple has focused on the product rather than the wants of the customer!

## MARKET ORIENTED – MARKET-LED

An organisation with a market orientation thinks that its most important asset is its consumers. The firm believes that, as long as it is able to identify potential consumers, find out what they want, and then produce that for them, it will remain successful.

### PRODUCT-LED -V- MARKET-LED



### **Additional Tasks**

These tasks are optional and are designed to enhance learning and teaching. Pupils can also complete these tasks at home as homework.

#### **Task 1**

Complete the table below to identify the target market for each magazine. You may use the Internet to help you with this task.

<b>Name of Magazine</b>	<b>Who is the Target Market?</b>	<b>Give a reason for your answer</b>
Good Housekeeping		
Match		
Glamour		
Good Food		
PC Format		
Empire		
Golf World		
Heat		

## Task 2

Study the products in the table below. Complete the table below to indicate the target market that each product is aimed at and give a reason for your choice.

Product	Target Market	Why do you think this?
 Kinder Surprise		
 Rihanna perfume		
 Hollister hoodie		
 Vanish cleaning range		

**Task 3**

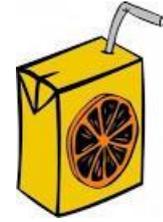
Complete the table below with the relevant definitions for the key terms given.

You should refer to your course notes for this task.

<b>Key Word</b>	<b>Definition</b>
<b>Market</b>	
<b>Marketing Concept</b>	
<b>Market Segmentation</b>	
<b>Market Research</b>	
<b>Tangible Product</b>	
<b>Intangible Service</b>	

**Task 4**

**Juicebox - Case Study**



Read the case study below on Juicebox.

A new soft drink organisation, Juicebox has come up with the idea of an orange drink in a carton with an integrated straw. Once the box has been opened, a straw pops out.

They intend their target market to be children.

They will take samples of the product out to the High Street and find out what the general public think of the idea.

Explain what is meant by 'primary information'.

What 3 pieces of primary information should Juicebox collect when conducting market research?

1

2

3

**Task 5** - Complete the table below indicating if the example given is field or desk research.

Example	Field Research	Desk Research
Asking your class to complete a questionnaire		
Interviewing people through a phone survey		
Conducting a survey of every fifth person who passes you in the High Street		
Sending a questionnaire through the post		
Copying out information from your local evening newspaper		
Using the Internet to research rival businesses		

**Task 6**

Marketing Mix Element	Definition
P _____	

## **Task 7**

Below are 2 examples of product failures by well-known and successful business organisations.

Read each case study and then answer the questions which follow on a sheet of A4 lined paper.

### **Case Study 1**

#### **Crystal Pepsi by Pepsi (1992-1993)**

As health and wellbeing became ever more important, more and more consumers were picking up bottles of Evian and Perrier water instead of cola.

In an attempt to break into this market of health conscious consumers, Pepsi launched Crystal Pepsi. This new cola was clear in colour, caffeine-free and a total **failure!**

It was hard for consumers to think of cola as a clear liquid and it wasn't helped by the fact that Crystal didn't taste like Pepsi Cola at all. In fact, no one really knew what it tasted like – just that it wasn't good!

Two years later, the product was pulled from the shelves.

But Pepsi didn't give up completely on its quest for purity. Shortly after the clear Pepsi Cola fiasco, the company decided to get in on another, more widely accepted clear liquid market: Aquafina bottled water.



### **Questions**

1. Do you think that Pepsi had a good idea with Crystal Pepsi Cola? Justify your answer.
2. What should Pepsi have done prior to launching this new product?
3. Why do you think the product was removed from Pepsi's Product Mix?

## **Case Study 2**

### **New Coke by Coca-Cola (April 1985 – July 1985)**

By the early 1980s, Coca-Cola was losing ground to Pepsi. Americans seemed to prefer the sweeter flavour of Pepsi. Coke decided it was time for a taste makeover.

In April 1985, “New Coke” hit the shelves. The taste was said to be “smoother, rounder yet bolder” than the original drink and with this new release, the company halted production of its original formula. This was the company’s biggest mistake.

People were outraged they couldn’t get their hands on original Coke, and started boycotting the new product. Coke had underestimated the power of its iconic brand, and America’s deep-rooted attachment to it.

Months later, they brought back the original formula. New Coke stayed on the shelves until the early 90s but it was renamed Coca-Cola Classic.



### **Questions**

1. Why do you think Coca-Cola felt the need to re-vamp its original product?
2. What were Coca-Cola’s main mistakes when they launched New Coke?
3. In the space of 3 months Coca-Cola brought back the original Coke formula. Why were they forced to do this?

