

R064 Enterprise and marketing concepts



About this unit
This unit provides an overview and introduction to the key concepts. You will consider how a business markets its products and services to its customers, and review the internal areas that enable a business to operate successfully.

- Learning outcomes**
- L01 Understand how to target a market
 - L02 Understand what makes a product or service financially viable
 - L03 Understand product development
 - L04 Understand how to attract and retain customers
 - L05 Understand factors for consideration when starting up a business
 - L06 Understand different functional activities needed to support a business start-up

How will I be assessed?
You will complete a 1 hour 30 minute written examination set and marked by the examination board. The examination paper will have 80 marks and will have two parts:

- Part A – 16 multiple choice questions
- Part B – short answer questions and three extended response questions.

L01 Understand how to target a market

This learning outcome considers how a business ensures that the products and/or services it offers meet the needs and wants of its customers. You will consider how a business splits up its customers into smaller groups, often referred to as segments, and how it is able to find out what its customers want and need.

- Teaching content**
- In this learning outcome you will cover:
- 1.1 The need for customer segmentation
 - 1.2 Types of market segmentation
 - 1.3 The benefits of market segmentation
 - 1.4 The purpose of market research
 - 1.5 Primary (field) market research methods (physical or digital) and their benefits
 - 1.6 Secondary (desk) market research sources and their benefits
 - 1.7 The types of customer feedback techniques available to business start-ups

1.1 The need for customer segmentation

Businesses sell a wide range of products and services to their customers. Together, these customers make up the **market** in which the business operates.

In order to decide which products and services to offer, a business may decide to divide the market in which it operates into groups or segments. This allows it to produce goods and services to meet the needs of each of these different segments.

In any particular market, there will be several segments. The size of these segments may be measured in terms of number of sales or the value of the sales. Not all segments are the same size: in Figure 1.1, market segment 2 is approximately twice the size of market segment 1.

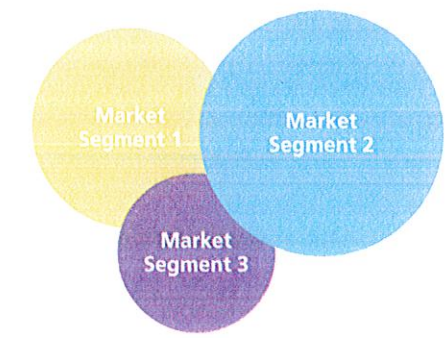


Figure 1.1 Venn diagram

Getting started
Think about your local supermarket. In small groups, choose three products that the supermarket sells. Discuss what type of customer is likely to buy each of these three products.

Key term
Market A place where buyers and sellers come together to trade goods and services.

The particular market segment that a business plans to sell its products or services to is known as the **target market**. There are a number of reasons why businesses need to segment their markets. One key reason is that all customers are different and have their unique needs, wants and aspirations. In general, customers vary for the reasons described below.

Benefits required

Different customers require different products and services depending on their needs. For example, customers who live in warm countries such as Spain and Italy are likely to have less need for winter coats than individuals that live in colder countries, such as Norway and Iceland.

Amount of money available

Usually, depending on household income, individuals have a set amount of money they budget to spend on goods and services. For example, individuals willing to pay a large sum of money for a holiday may book an exotic cruise holiday, whereas a family with a limited budget may book a self-catering caravan holiday close to their home.

Quantity of goods required

Different customers require different quantities of goods. For instance, a family of five will need to purchase more food from the supermarket than a single person living on their own.

Quality of goods required

This often links to an individual's income. People with a high income are more likely to purchase higher quality goods than individuals on a low income. For example, a multi-millionaire may decide to purchase a new Rolls Royce car, while a family on a low income may purchase a second-hand car costing very little money.

Time and location for purchasing goods

The type of goods that a customer wishes to purchase will affect the timing and location of where the goods are purchased. For example, a person who needs a carton of milk for breakfast is likely to go early in the morning to a local store to buy the milk immediately. Individuals looking to purchase a new piece of furniture are more likely to be prepared to wait for their goods, travel further to purchase those items they really want to have in their home, and take time to consider the purchase before committing.

Key term

Target market A particular group of customers at which a good or service is aimed

1.2 Types of market segmentation

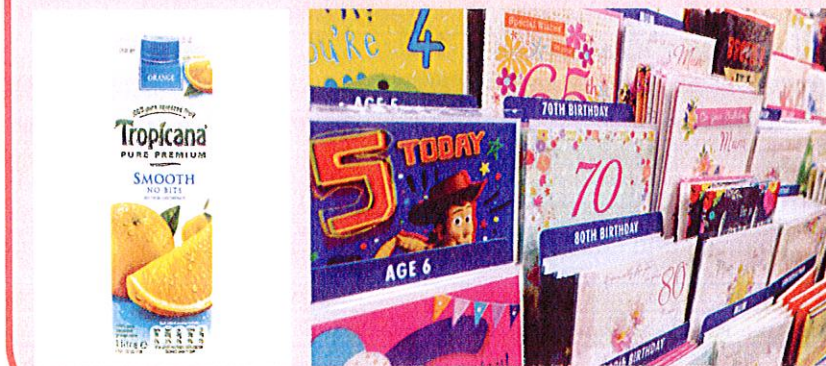
A market may be segmented by age, gender, occupation, income, geographical location and lifestyle, as outlined below.

Age

A business will offer products for sale that will appeal to individuals of particular ages. For example, a bicycle shop will sell a range of bikes of different sizes that can be used by individuals of different ages. For very young children, the shop may sell tricycles and balance bikes.

Activity

Consider how the products below are adapted to target different age groups.



Gender

Some goods are aimed at women and others are aimed at men. Some businesses only produce products that target a particular gender, some target both genders, while others make unisex products that can be used by both men and women. These strategies help a business to increase its sales and, potentially, its profit levels.

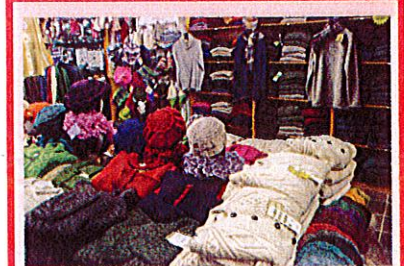
Occupation

Businesses know that individuals from particular occupations are more likely to purchase certain goods and services. For example, teachers are known to purchase red pens for marking pupils' work; therefore, at the start of the academic year, businesses often showcase their range of 'Back to School' goods that teachers may be willing to buy.

Income

An individual's income affects their buying habits. This is often noticed when buying newspapers, holidays and cars. For example, individuals with a lower income are more likely to purchase tabloid newspapers whereas people with a higher income will purchase broadsheet newspapers.

Activity



Discuss how a shop specialising in knitwear can ensure its products appeal to both males and females.

Geographic

These markets are segmented according to where people live. Suppliers of white goods such as washing machines and tumble driers, adapt their products to meet the needs of customers based in a particular location. In Mediterranean countries, where the weather is warm, there is less demand for tumble driers and washing machines can have a slower spin speed, as clothes can be dried outside. However, in Scandinavia, higher spin speeds and tumble driers are required to ensure clothes can be dried during the long, cold winters.

Lifestyle

A person's lifestyle can be defined as their pattern of behaviour and includes their hobbies and interests. People's interests and hobbies are often based on their personal attitudes, habits and beliefs. Many businesses target individuals that have special interests, for example, an increase in the number of gyms that have opened around the country has led to a large number of sportswear and equipment shops opening.

1.3 The benefits of market segmentation

There are a number of benefits to both businesses and customers of segmenting the market.

In particular, segmentation ensures customer needs are matched and met. By focusing on one particular area, businesses are more likely to meet the needs and wants of their customers. This in turn means customers are more likely to purchase goods and therefore the business will increase sales and potentially increase its profits. If a business has segmented based on income, then it can vary the price of its goods in accordance with the target customers' income and attempt to maximise profit.

When a business focuses on its customers, it is more likely they will return to the business for their purchases. This will lead to increased **customer retention**. Businesses may encourage customers to trade up their purchases following an introductory offer, or may promote new goods to the customers when a product is coming to the end of its life.

Market (or customer) segmentation allows for targeted marketing, as a business is able to deliver its marketing and advertisements to customers who will have a key interest in the product being offered. As the business will be aware of which segment of the market to target, the right customers will be reached, and the marketing costs incurred will be less. With careful monitoring and targeting of appropriate customers, there is the potential for an increase in **market share**.

Key terms

Customer retention The ability of a business to keep customers

Market/customer segmentation The division of a market into groups or segments

Market share The section of a market controlled by a particular business

1.4 The purpose of market research

Market research is a vital part of any business success and involves finding out information about the market in which the business operates. It is vital to research the potential market when setting up a business and market research should continue to be used throughout the life of the business. Customers and the market as a whole change over time, so it is very important to undertake in-depth market research on a regular basis. This might be to assess whether new products should be introduced, existing products phased out, expansion plans should take place or, in certain circumstances, whether the business has a long-term future.

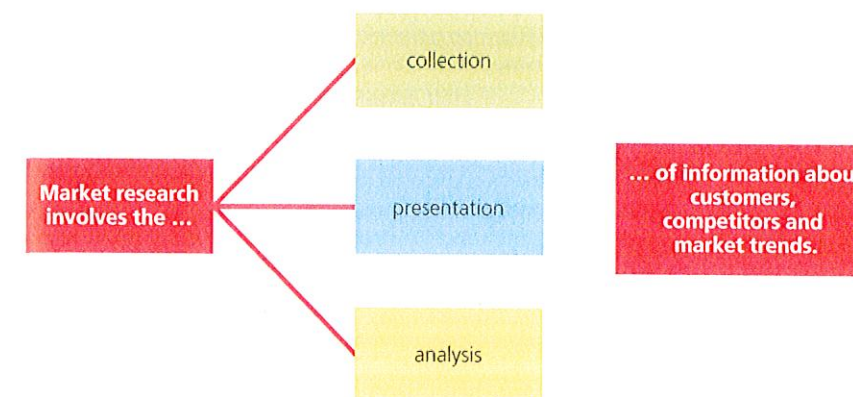


Figure 1.2 Market research

In small businesses, such as sole trader businesses, the owner often completes the market research that is required. In large companies, staff employed in marketing departments will complete market research to meet the needs of the organisation. Some businesses may also work with marketing companies or agencies who complete the market research on their behalf. Whatever their size, a business will aim to find out what existing and potential customers need and would like to buy.

Businesses complete market research for the reasons below.

Understand the market and reduce risk

Comprehensive market research will allow a business to understand the needs of the market and then provide goods and services to meet those needs. By developing a working knowledge of customer needs and wants, the business reduces the risk of making decisions about products or services that may be inaccurate and potentially costly. Although this is a major benefit of market research, many businesses opt out of the process due to the costs involved. Instead, they often try to guess what customers may want to purchase or they may just contact existing customers to try and identify changes in taste and other market trends.

Key term

Market research The actions of a business to gather information about customers' needs and wants

To promote the organisation

By completing comprehensive market research on how a business organisation advertises and markets its products, the business organisation will be able to gain vital information on what attracts customers. If the business organisation acts on the findings then they will be able to put appropriate marketing and advertising strategies in place in order to promote the business organisation's products and services.

To aid decision making

The results of detailed primary and secondary market research can be analysed at management level within a business organisation. By analysing the results in detail, a business will be able to make informed decisions based on the feedback received. This could use research on customer needs, wants and aspirations to inform decision making about the type of products or services the business organisation should provide.

Obtain customers' views

By understanding customer needs and wants, managers can make informed decisions. Market research allows customers to discuss their views, needs and wants in terms of products and services offered. Once analysed, this information provides a business with a comprehensive overview of what needs to be produced and sold in order to meet the customers' expectations. By meeting these expectations, the business is likely to maximise its sales and profits.

Inform product development and promote the business

Comprehensive and accurate market research reduces the risks involved in launching new or updated products. Whenever a business launches a new product, there is a possibility that customers will not want to buy it. Market research helps the business to reduce this risk, as it will be aware of what its customers are looking to purchase in the future. Analysed market research information will ensure that the products that are developed are up-to-date and meet the needs of customers.

A further benefit of market research is that by asking customers about their needs, the business is promoting itself to them, and this may lead to additional sales from these customers.

Introduction to types of market research

There are two main types of market research:

- **Primary research** (also known as **field research**).
- **Secondary research** (also known as **desk research**).

Key terms**Primary (field) research**

Gathering data and information that has not been collected before

Secondary (desk) research

Gathering data and information that has already been collected before

Table 1.1 Primary and secondary research

Type of market research and definition	Examples	Advantages	Disadvantages
Primary (field) research – gathering data and information that has not been collected before	<ul style="list-style-type: none"> • Interviews • Observations • Questionnaires • Surveys • Focus groups • Consumer trials 	<ul style="list-style-type: none"> • Relevant and up-to-date information • The data and information are specific to the organisation completing the research • Data and information are only available to the organisation who commissioned the research, allowing for a competitive advantage 	<ul style="list-style-type: none"> • Costly and time consuming to complete • A sample size that is too small may provide biased results • Consumers are not always willing to take part in market research. They often regard telephone calls to gain information as 'nuisance calls'
Secondary (desk) research – gathering data and information that has already been collected before	<ul style="list-style-type: none"> • Books/trade magazines/newspapers • Published company reports • Internal data • Competitors' data • Government publications and statistics • Purchased research material (e.g. Mintel) 	<ul style="list-style-type: none"> • Cheaper than primary (field) research and often free, as the data and information already exists • Information and data are frequently based on a large sample size, for example, census data • The information and data are readily available, therefore, it is not time consuming for the business to collect it 	<ul style="list-style-type: none"> • The information is available to all, reducing the competitive advantage to be gained • The information and data are not specific to the business completing the analysis • Depending on when the information was collected, it could be out of date and therefore irrelevant to the current market conditions

Factual information that is collected, for example, information about customers' ages, is known as **quantitative data**. Information about people's opinions and views is known as **qualitative data**.

Activity

Working in pairs, categorise the following activities as either primary (field) or secondary (desk) research methods.

- Reports from the Office for National Statistics
- Internet research
- Annual financial report of a local competitor
- National newspaper article
- Focus group
- Census reports
- Observation
- Questionnaires

1.5 Primary (field) market research methods (physical or digital) and their benefits

Some of the primary market research methods outlined below may be paper based or digital/online. For example, surveys and questionnaires may involve filling in a question form, or they may be conducted online via a website, app or social media platform.

Key terms

Qualitative data Data based on the opinions of those being asked

Quantitative data Data collected that is based on facts or numbers; it is usually easier to analyse than qualitative data

Observations

Observations involve watching and noting down what individuals do and how they behave in a particular situation. Retail stores frequently use this method, with the aim of providing the most effective and efficient store layout. However, a business must assess whether it is worth the cost outlay of completing the observation for the information that is likely to be learned.

Benefits

- If one aisle had made very few sales during the previous month, an observation may identify whether customers were avoiding the aisle entirely or just not purchasing those particular goods.

Disadvantages

- While an observation may identify what is happening, it will not provide the reasons why.
- Completing any observation is time-consuming and therefore costly.

Questionnaires

Questionnaires are a popular method of collecting primary (field) research. Questionnaires are often sent out in the post and are a set of printed or written questions usually with a choice of answers devised to collect information.

Benefits

- The information that is gained will be accurate and relevant.
- They can take place in a range of locations like personal homes, work places etc.
- Questionnaires are relatively cheap to produce.

Disadvantages:

- Many people will see the questionnaires as junk mail and place them in the bin.
- Question clarification cannot be sought as there is no one physically asking the questions.

Personal survey

A personal survey involves asking individuals questions face-to-face.

Benefits

- The information that is gained will be accurate and relevant.
- If needed, an interviewer can explain the questions to the interviewee if clarification is required.
- The survey can take place in the street, in the entrance to a store or in a pre-arranged meeting place.

Disadvantages

- Personal surveys are expensive to complete and extremely time-consuming.



Figure 1.3 Personal survey

Postal survey

In a postal survey, a large number of questionnaires are printed and distributed to individuals at their home address. Prior to distribution, the business needs to decide what sample size should be used and to whom the questionnaires should be sent. Questions must be easy to understand, well written and it must be clear what response is required. In order to achieve the best level of responses, questions tend to be short, often with multiple choices.

Benefits

- A postal survey is often cheaper than a personal survey.

Disadvantages

- It is difficult to gain any detailed answers from a postal survey.
- Many people do not respond to postal surveys as they regard them as junk mail – up to 90 per cent of these surveys will not be returned.

Telephone surveys

Many businesses now conduct telephone surveys to find out more about their customers' needs and wants. However, they must ensure they comply with the General Data Protection Regulation (GDPR) when telephoning consumers.

Benefits

- Telephone surveys allow for a wide geographical area to be covered.

Disadvantages

- Telephone surveys are relatively expensive, as they are time-consuming in terms of staff time.
- Many people fail to complete the surveys as they do not accept the telephone call or hang up when they realise what the call is about.

Internet surveys

Internet surveys are increasing popular, but the questions must be easy to read and understand, as there is no personal contact to explain their meaning. Although the internet can be used to conduct both primary and secondary research, it would not be categorised as a stand-alone research method. It is the digital tools such as websites, apps and social media that are directly used to conduct the research.

Benefits

- An internet survey is quick to produce and analyse.

Disadvantages

- As with telephone surveys, there is a high proportion that will be not be answered.

Focus groups

Focus groups usually provide high-quality research information. A small group of individuals are chosen, based on the needs of the business conducting the market research. These are usually



Figure 1.4 Internet survey

Key term

Focus group A group of people who participate in a discussion about products and services

a cross-section of the public, to ensure a wide range of views. The group then discusses key questions and themes that have been identified by the business.

Benefits

- The information gained will be accurate and relevant.
- If needed, a co-ordinator can explain the questions or direct the conversation.

Disadvantages

- Focus groups are expensive to complete and extremely time-consuming.

Consumer trials

A consumer trial is a short-term offering of a product or service that allows a limited number of consumers to examine, use or test the product before the business fully launches it. A consumer trial provides honest and reliable information and the information obtained can be used to amend the product if necessary. However, consumer trials are expensive to operate and the analysis of individuals' views and opinions is not as easy as numerical data.

Benefits

- A consumer trial provides honest and reliable information.
- The information obtained can be used to amend the product if necessary.

Disadvantages

- Consumer trials are expensive to operate.
- Analysing people's views and opinions is not as easy as analysing numerical data.

Case study

Professional football clubs are keen to provide access for all. In recent years, they have introduced focus groups to discuss with fans what their needs and wants are. As a result, the football clubs have introduced a wide range of initiatives to increase supporter enjoyment. These include fan zones that open prior to games, family areas and match day mascot opportunities.

Question

In small groups, identify a local professional sports team. Discuss potential initiatives that could be discussed during a focus group to be held with their fans.



Figure 1.5 Mascots such as Burnley Football Club's Bertie Bee are a common sight at football grounds

1.6 Secondary (desk) market research sources and their benefits

Internal data

Internal data is numerical or other data and information held by a business. When completing market research, a business must ensure it reviews all its internal information alongside any external information that is available. Businesses hold a wide range of information, for example, sales data, customer profiles and financial budgets.

Benefits

- Numerical data can be used to make predictions about the future by looking for trends over a period of time.
- Data can also be compared against local competitors or against industry benchmarks.

Disadvantages

- Internal data has a narrow scope and does not consider the wider world.

Books, newspapers and trade magazines

Books, newspapers and trade magazines may either be online or paper-based.

Benefits

- Information from these sources is relatively cheap to acquire, likely to be accurate and readily available.
- Physical books, newspapers and trade magazines can either be purchased or loaned from local libraries.

Disadvantages

- The information may be out of date, depending on publication date.
- The information collected may not be totally relevant to the business organisation.

Competitors' data

Competitors' data may be available publicly, depending on the legal structure of the business. A limited company is required by law to publish its financial data on an annual basis.

Benefits

- In the UK, this data is submitted to Companies House and is publicly available.
- By reviewing the financial records of other organisations, managers can review their own organisation's performance.

Disadvantages

- It must be remembered that for meaningful comparisons to be made data should only be compared 'like with like'. This means that a limited company should not be compared with a sole trader, for example.

Government publications and statistics

Government publications and statistics are readily available to download from the internet. Examples include the national census and publications relating to taxation such as income tax or corporation tax.

Benefits

- Government publications and statistics are generally free.
- The resources are usually readily available on the internet and comprehensive in nature.

Disadvantages

- Depending on the information required, there may be a cost.
- Although such information will be accurate and trustworthy, it may be out of date – for example, the Census is only completed every ten years.
- Any government information will be generic and not specific to the requirements and situation of the business downloading the information.

Purchased research material

Market research companies such as Mintel sell research material to businesses. Examples include Mintel's reports on cause marketing, marketing to sports fans and sports and energy drinks. Before purchasing such information, a business should consider the likely usefulness of the material, by considering the following:

- What will this purchased report tell us?
- Can we purchase only the part of the report that is relevant to us?
- Who is the author?
- When was the report written?
- Which report is best for the business?

Benefits

- This research material is readily available on the internet and comprehensive in nature.

Disadvantages

- Depending on the information required, there may be a cost.
- As with other secondary (desk) research, it must be remembered that the information could be out of date and not totally relevant to the particular circumstances being considered.

Activity

A new fast food restaurant is opening in Northern Town. Copy and complete the tables to advise the owners of the most appropriate primary (field) and secondary (desk) research methods to gain market information.

Primary (field) research methods that could be used by the new fast food restaurant	Description of primary (field) research method	Advantages of primary (field) research method	Disadvantages of primary (field) research method
Secondary (desk) research methods that could be used by the new fast food restaurant	Description of secondary (desk) research method	Advantages of secondary (desk) research method	Disadvantages of secondary (desk) research method

1.7 The types of customer feedback techniques available to business start-ups

When completing market research, a business organisation needs to consider how it will receive feedback from its customers. In recent years, many businesses are keen to send online surveys to their customers to review their experience. Hotels are keen to do this and often send guests forms to review their stay after leaving. Motor garages frequently telephone their customers to review the services offered during a visit to the dealership. Smaller business organisations often have comment cards where customers can leave opinions and views about customer service.

By making customer service measurements, a business organisation will be able to:

- 1 Make informed decisions about its future product developments. By having detailed information about what customers need and want, business organisations can develop products to meet these needs.
- 2 Retain customers. Business organisations that meet and respond to their customers' needs will ensure that customers will return to their business and purchase goods from them in the future.

- 3 Remain competitive. By meeting customers' needs and listening to what customers think of their products and services, a business organisation is able to continue to make sales and therefore remain competitive in the market.
- 4 Identify areas of strengths and weaknesses. By asking customers for their opinions both positive and negative, a business organisation is able to identify its key strengths and weaknesses.

Business organisations have to make a decision about how to receive feedback from their customers. The following are the main techniques used by business organisations:

- **Repeat business data** – the number of customers that return to the business to purchase their goods and services.
- The number of **complaints/compliments** gathered over a period of time.
- **Mystery shoppers** – individuals who enter a business organisation to make a purchase and then review the performance of the business organisation on how they were treated and served.
- **Social media/online communities** with reviews and comments – social media platforms such as Facebook and Twitter allow customers to comment and review their experiences of different business organisations.
- **Online surveys** – online surveys are increasingly popular and are sent to customers to review a business organisation's performance. When preparing any internet survey, the questions must be easy to read and understand, as there is no personal contact to explain meanings.
- **Customer comment cards** – these are cards/pieces of paper that are left in business organisations on which customers can make comments and return to a member of staff or sealed box and can be reviewed by management at a later time.
- **Comments made to staff members** – customers may make comments to staff members about a business organisation's performance. These comments are then passed to management to make informed decisions.
- **Telephone/email surveys** – many business organisations in recent years have started to use telephone and email surveys to gather information. It is important to remember that business organisations must comply with data protection legislation when telephoning customers.
- **Email contact forms** – contact forms are used by business organisations to gather information and collect customer data. Once the information has been collected, business organisations can send marketing and product information to their customers.

Customer feedback is very important to new business organisations. Without having a clear understanding of what customers need and want, a new business organisation is unlikely

to succeed. For example, an entrepreneur considering opening a new indoor children's play area would be likely to conduct primary and secondary research. They could:

- ask parents of young children to complete questionnaires
- conduct focus groups in local primary schools
- use the internet to review the number of other play areas in the local area
- research national statistics to find out the number of children in the target area
- visit competitor play areas, to ascertain what activities and facilities are currently being offered.

Read about it

www.businesslink.co.uk – provides practical examples on how to be a successful business person.

www.socialenterprise.org.uk – a national body for social enterprise which provides excellent practical examples

Test your knowledge

- 1 Define the term market research.
- 2 Identify five sources of primary (field) research.
- 3 Identify five types of market segmentation.
- 4 Explain the advantages of a business organisation segmenting its customers.
- 5 Assess the benefits of an existing business conducting primary (field) and secondary (desk) research.

Activity

In small groups, discuss how a hotel may receive feedback from its guests about the services offered.

Stretch activity

Analyse why it is important for a new business organisation to identify and research its target market.