Business Studies Notes by Abdullah

Business aims and Activities

Private sector aims

The aim of a business in the private sector is to survive by making a profit. This may be a sole trader working alone, like a newsagent, or thousands of shareholders in a large Public Limited Company.

Businesses gain a larger market-share [a percentage of overall sales in an industry] by increasing the sales of their products against competitors. This may involve reducing prices.

To win the loyalty of customers and encourage repeat sales [Customers returning to buy the product from the same business], businesses need to be reliable and provide a quality service to their customers.

Private sector activities

The activities of industry can be divided into stages - primary, secondary and tertiary production. These stages form the chain of production and provide consumers with the finished goods.

Primary production

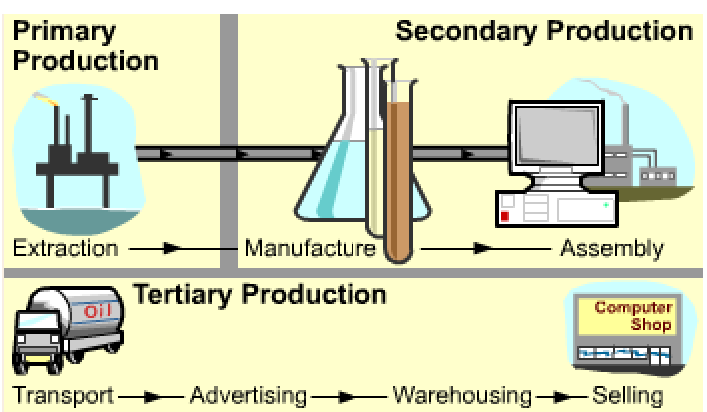
This involves acquiring raw materials. For example, metals and coal have to be mined; oil drilled from the ground; rubber tapped from trees; foodstuffs farmed, and fish trawled. This is sometimes known as extractive production.

Secondary production

Is the manufacturing and assembly process. This involves converting raw materials into components, eg making plastics from oil, and assembling the product, eg building houses, bridges and roads.

Tertiary production

This refers to the commercial services that support the production and distribution process, eg insurance, transport, advertising, warehousing and retail, teaching and health care.



Limited companies

All limited companies are incorporated [firm with separate legal existence], which means they can sue or own assets in their own right. Their owners are not personally liable for the firm's debts their losses are limited to the amount they invested in the business (limited liability). The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these is called a shareholder.

A public limited company (PLC) can sell its shares on the Stock Market, while a private limited company (Ltd) cannot. Unlike a sole trader or a partnership, the owners of a limited company are not involved in the running of the business, unless they have been elected to the Board of Directors.

Public and Private Limited Companies

In general, both types of company must audit [an independent check no the accounts of the company] their accounts, and have them available for inspection. There are, however, exceptions to this rule for smaller private limited companies. Both types of company must indicate their status in their name, usually by using the abbreviation PLC or Ltd. This lets traders know that their liability is limited and that debts cannot be recovered from the personal funds of the company shareholders.

Private Limited Companies

Advantages	Disadvantages
Easy and inexpensive to set up.	Lack of capital due to no share issue.
Ownership and control are closely connected, eg Board of Directors are usually the main shareholders.	No benefit from economies of scale, e.g. bulk buying, cheaper borrowing.
Small and less bureaucratic than PLCs, eg decisions can be taken more quickly.	

Public Limited Companies

Advantages	Disadvantages
Raise large amount of capital from share issue.	Become too large resulting in poor labour relations .
Benefit from economies of scale, eg bulk buying, cheaper borrowing.	Conflict of interest between shareholders and the Board of Directors.
Produce goods at lower unit cost.	Possibility of takeover or merger because shares can be bought by anyone.

Sole traders

A sole trader describes any business that is owned and controlled by one person, although they may employ workers, eg a newsagent's shop. Individuals who provide a specialist service like hairdressers, plumbers or photographers, are also sole traders. Sole traders do not have a separate legal existence from their owner. As a result, the owners are **personally liable** for the firm's debts, and may have to pay them out of their own pocket. This is called unlimited liability .

Advantages

1. The firms are usually small, and easy to set up.
2. Generally, only a small amount of capital needs to be invested, which reduces the initial start-up cost.
3. The wage bill will usually be low, because there a few or no employees.
4. It is easier to keep overall control, because the owner has a hands-on approach to running the business and can make decisions without consulting anyone else.

Disadvantages

1. The sole trader has no one to share the responsibility of running the business with. A good hairdresser, for example, may not be very good at handling the accounts.
2. Sole traders often work long hours and find it difficult to take holidays, or time off if they are ill.
3. Developing the business is also limited by the amount of capital personally available.
4. There is also the risk of unlimited liability, where the sole trader can be forced to sell personal assets to cover any business debts.

Partnerships

Partnerships are businesses owned by two or more people. A contract called a deed of partnership is normally drawn up. This states the type of partnership it is, how much capital each party has contributed, and how profits and losses will be shared. Doctors, dentists and solicitors are typical examples of professionals who may go into partnership together. They can benefit from shared expertise, but like the sole trader, have unlimited liability. A partnership can also have a sleeping partner who invests in the business but does not have dealings in the day to day running of the enterprise.

Advantages

1. The main advantage of a partnership over a sole trader is shared responsibility. This allows for specialisation, where one partner's strengths can complement another's. For example, if a hairdresser were in partnership with someone with a business background, one could concentrate on providing the salon service, and the other on handling the finances.
2. More people are also contributing capital, which allows for more flexibility in running the business.
3. There is less time pressure on individual partners.
4. There is someone to consult over business decisions

Disadvantages

1. The main disadvantage of a partnership comes from shared responsibility.
2. Disputes can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another.
3. The distribution of profits can cause problems. The deed of partnership sets out who should get what, but if one partner feels another is not doing enough, there can be dissatisfaction.
4. A partnership, like a sole trader, has unlimited liability.

Public ownership

Public ownership refers to any service or industry owned by the state, for example:

- National Health Service
- Emergency services
- Armed forces
- State education

Central government controls these organisations. Their main aim is to provide essential services for the whole population. They are not profit making, and the general public pays for these services through taxation. Some services are the responsibility of local government, such as refuse collection and the maintenance of parks.

There are arguments for and against public ownership. First look at the advantages:

- Jobs - Usually protected, reducing unemployment.
- Resources - Key supplies, eg water and energy, can be guaranteed and controlled.
- Essential services - Health, education, housing and transport are guaranteed for everyone.

The main argument for public ownership is that the whole population benefits rather than just those who can afford to pay privately. Before the creation of the National Health Service, for example, you had to pay to see a doctor. Today we pay through taxation, but those who earn less, pay less and the unemployed are provided for.

Now look at the disadvantages of public ownership.

- Higher costs - Providing these services means higher costs, and higher taxes.
- Inefficiency - Large non-profit making organisations suffer from diseconomies of scale
- Governement interference - Politicians' interference can negatively affect the efficiency of an organisation

The main argument against public ownership is its cost. This cost is called the Public Sector Borrowing Requirement and is funded by taxation, either directly through income tax or indirectly through National Insurance. More public services mean a higher tax bill for everybody, including those who may not benefit from them.

Large public sector organisations are bureaucratic. They also often have a monopoly, and without competition, workers can become unmotivated and inefficient.

During the 1980s, the government decided to privatised most of the nationalised industries in the belief that the added competition, and profit motive, would improve efficiency, and provide a better value-for-money service for the consumer. Examples are:

- British Gas
- British Steel
- British Airways
- British Telecom

Public services such as transport and refuse collection have been contracted out to private companies or deregulated by local councils.

Size of organisations

A firm may want to expand for a number of reasons. The main one is that it can benefit from economies of scale. A bigger firm will probably have a larger market share and a wider range of products than if it remains small.

A large firm can borrow more cheaply. Its chances of survival are increased, as is its ability to make a profit. The larger it becomes, the more power and status it will have. This gives it a good negotiating position, if it wishes to expand still further.

The most powerful companies may want to diversify [Moving into another area of business] and take control of other companies. If they buy the majority of shares in another company (at least 51 % of them), this is called a takeover, with the board of directors of the smaller firm unable to prevent it.

If two companies agree to merge, it usually means a complete restructuring of the combined companies. This is called a merger. The advantages of these forms of integration are that they can expand more quickly, and diversify into other areas of production. This increases the chances of growth, and reduces the risks.

A firm's size can be measured in different ways: through its turnover, net profit, and number of employees.

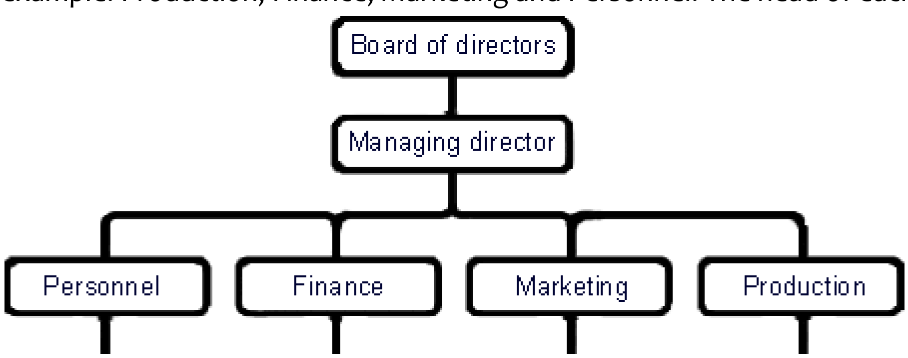
Internal structure

The structure of business organisations depends on the nature of their activities. A manufacturing firm may have a different structure from one providing a service. Two common ways of organising firms internally are dividing by:

- Functions (departments)
- Products

A manufacturing firm may divide its operations up by product, as it probably produces a range of products.

Most large companies have departments or functions as their basis for internal structure, for example: Production, Finance, Marketing and Personnel. The head of each area is called a director.



The chain of command is the formal line of communication that starts with the Board of Directors and the Managing Director, who make the firm's decisions. Below them are the department managers, then the section heads and finally to the shop floor or office staff. This is a hierarchical structure.

The chain of command is a typical pyramid shape. At each stage in the chain, one person has a number of workers directly under them, within their span of control. This person directly responsible for a group of workers is called their line manager.

Breakeven calculations

As with any calculation, it is easy to make a mistake. There are two simple equations you can use to double-check your answer. You can calculate the breakeven point in:

- units
- costs/revenue

Either way, the result should be the same.

Calculating in units

Learn this equation:

Breakeven point in units = $^{\text{Fixed Cost}}/_{(\text{Sales Price - Variable Cost})}$

So using the CD example:

Breakeven point = $^{10000}/_{(6 - 2)} = ^{10000}/_{4}$

Breakeven point = 2,500 CDs

Calculating in costs/revenue

Learn this equation:

For the breakeven point in costs/revenue, you then multiply the breakeven point in units, which you have just calculated, by the sales price.

2,500 × 6 = £15,000

If you look at the breakeven chart, you will see this is the correct answer.

Location and Distribution

Influences on location

When choosing a good location for a business, there are six important points to consider. These are access to:

Natural resources

An area that is rich in raw materials attracts industry. For instance, the steel industry was located in Yorkshire due to the rich sources of coal with which to smelt the nearby iron.

Transport links

Canals were the quickest way of moving bulky material around until railways were built. Now a network of motorways makes it easy to transport goods. Some industries still need to be close to transport links, so produce can be moved to market quickly and cheaply, eg newspaper printers and distributors.

The workforce

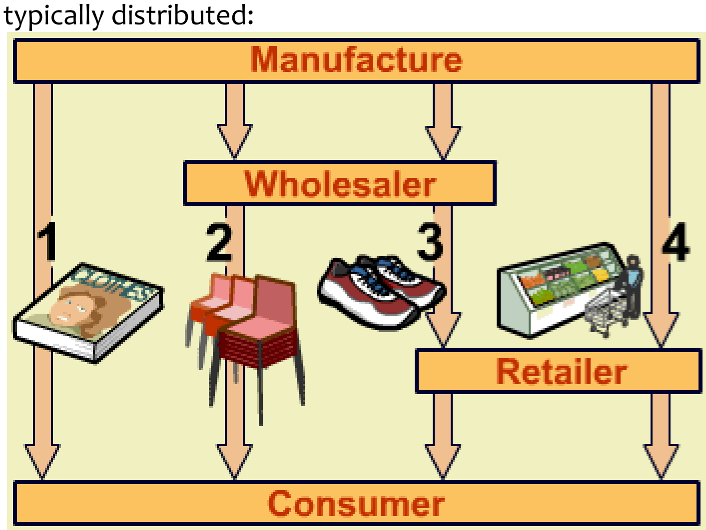
It used to be a problem to find enough people to make up the workforce but with high levels of unemployment this is no longer an issue. However, workers with specialist skills are often needed. Many engineering and technology firms locate near universities, where people with the right skills are often available.

Markets

Getting produce to market is no longer a problem because of the extensive transport and communications links in the UK. It can be an advantage being located near a densely populated market like Greater London, but the land costs are usually higher. Supermarkets and restaurants locate near their markets, or customers.

External economies of scale
In some areas, a whole industry has developed, like the car industry in the West Midlands. This concentration means that firms there can share expertise and training. They may even work on new research together. This can lead to shared economies of scale, such as cheaper prices for components through reduced delivery costs.
Central government funding
Central government sometimes offers incentives to any firms who are prepared to move to a targeted area. These might be areas of high unemployment or where the local economy needs stimulating. New towns like Telford and Milton Keynes and economic development areas [Regions

where government is triying to attract firms, Usaully by offering incentives] or enterprise zones like London's Docklands have grown up in this way.
Firms need easy access to their source of raw materials and good transport links to the marketplace. They require a workforce with the right skills and want to benefit from external economies of scale [Costs are reduced when business concentrated on one location e.g. Transport cost is reduced. These may mean product could be made more cheaply]
Footloose industries
Footloose industries can locate anywhere in the world and are not limited by any of these location factors. Examples include IT companies and call centres which both use telephone lines to transmit information.
Channels of distribution
Producers and manufacturers have to get their products to their customers. The channel of distribution [the route a product takes from its beginning to consumer] can be simple such as a farmer selling fruit directly to a consumer or through a chain of resellers. Each link in the chain means the end cost to the consumer will be higher, because each stage requires transportation, storage, advertising and insurance. On top of these costs, each reseller will want to make a profit for the service they are providing so the price is marked up.
Some firms have tried to become more competitive by reducing the price to consumers. They have cut out some of the resellers and perform functions like wholesaling and retailing themselves.
You should remember the four most popular channels of distribution, with examples of products typically distributed:



The four main channels of distribution

1. Direct from the manufacturer to the consumer - mail-order goods

2. From the manufacturer, via the wholesaler, to the consumer - furniture
3. From the manufacturer via the wholesaler and the retailer [end seller of goods to customers], to the consumer - trainers
4. From the manufacturer, via the retailer, to the consumer - supermarket goods

Methods of production

The types of goods and size of potential orders will affect the method of production used. There are three methods of production you need to be familiar with:

Job production

An individually designed house is an example of job production

This method is used when a customer makes an order for something to be made to his or her own specifications, for example a made-to-measure wedding dress, a personally designed house, a motorway or a passenger cruiser.

- labour intensive

- requires specialist, skilled labour
- very expensive

Batch production

This method is used when the size of the market for a product is not clear, and where there is a range within a product line. A certain number of the same goods will be produced to make a up a batch or run, for example clothes (where a batch of size 12 clothes in blue might be made, then a batch of size 10 in red), or carpets. This method involves using estimates.

- production is **monitored**
- output is **adjusted** accordingly

Mass or flow production

Chocolate bars are mass produced

Large-scale production benefits from economies of scale, such as division of labour and specialisation. This method is used when there is a mass market for a large number of identical products, for example, cars, computers, chocolate bars or toasters. The product passes from one stage of production to another along a production line.

- capital intensive
- low cost per unit

Technological changes

Production methods are constantly evolving in the attempt to cut costs and raise profits. Here are three ways in which efficiency can be achieved:

Automation

Automation has been used for many years in production to perform specific tasks in mass production. The draw back with this method is that computer-controlled machinery replaces workers leading to large-scale redundancies. This has happened in the motor industry.

This sort of machinery is very expensive, so a company will be taking a risk as a product may not be successful. On the other hand, production levels and quality improve, which leads to less wastage and therefore lower costs.

Computer-Aided Design (CAD)

CAD allows designers, engineers and architects to manipulate a 3D image. An image can be altered on-screen so the effects of any changes are seen instantly. This represents a huge saving in time and costs as a prototype need not be built at each stage. Customers can even design their own products and email them to the business. The products can then go straight into production.

Computer-Aided Manufacture (CAM)

The most important application of CAM in production is the use of robots. These can be programmed to copy the physical movements of workers. They are particularly useful for repetitive tasks, or for those dangerous to health, for example, working with poisonous gases or radioactivity. The advantage of robots over humans is that they don't get tired or ill but they do need to be maintained.

Organising production

The production department

This department is responsible for the entire manufacturing process, turning raw materials into finished goods. Under the leadership of a Works or Production Manager it has to:

1. identify the engineering or technical aspects of the production process
2. assess how long it will take to plan production
3. monitor progress, carrying out work studies and inspection

Now look at each of these functions in more detail:

Engineering

1. Determines how product will be made
2. Assesses what technical equipment is needed
3. Checks on standard of raw material

Planning

1. Identifies when production will take place
2. Estimates length of production
3. Ensures raw materials are delivered on time

Controlling

1. Ensures production plan is being followed
2. Maintains quality standards
3. Monitors timescale

If planning is not carefully co-ordinated production could slow down or even stop. The company will lose money if workers and equipment are left idle due to raw materials not arriving on time. Physical resources and labour are the largest costs a manufacturing firm has. If they are not used efficiently, the firm can lose money.

Companies carry out work studies to assess working practices. The quality control department carry out inspections where random samples are tested to ensure standards are met. Wastage can be avoided if the production process is monitored carefully.

Stock control

The purchasing department of a firm handles stock control. It involves:

- buying in raw materials and components
- controlling stock levels

Large companies are able to benefit from economies of scale and bulk buying at a discounted price. However, this can lead to a number of problems like increased storage costs and a greater risk of theft or deterioration.

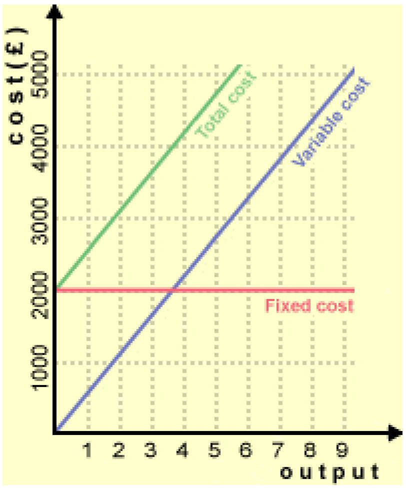
Production costs

Types of production costs

A manufacturing company's production department will need to consider the quality and quantity of a product in relation to cost. If a firm wants to make a profit, it has to know what it is spending as well as what it is earning. Here are some of the costs it needs to know to do this:

- **Fixed**
- **Variable**
- **Total**
- **Marginal**
- **Average**

Now look at each of these costs in more detail:



Fixed costs

These costs do not change however many units of a product are made. Factory rent, insurance premiums and administration salaries stay the same, whether the factory is working at full capacity or producing nothing. The owner of the business may have taken out a loan to buy equipment or refurbish a building. The loan will have to be repaid whether or not the business has customers.

Variable costs

Variable costs change as output changes. For example, the amount of raw materials needed varies as the levels of output go up or down. Piece-work wages also fluctuate, depending on the employees' efficiency and the demand for the company's products.

Total costs

The fixed costs and the variable costs are added together to establish the total costs. The fixed costs remain constant, but the variable costs increase in direct proportion with output.

Marginal costs

Using marginal cost is a way of measuring how much more it will cost a company to make one more individual item. Here is an example:

A company produces compact discs. It has produced 99 CDs and the total costs have amounted to £999. If the total costs increase to £1,000 when the hundredth CD is made the marginal cost of the last CD is £1.00.

The firm knows that now each CD should cost only £1.00 or less to produce. As the cost per unit usually decreases with a rise in output, it should become cheaper to produce each one. The firm may be able to offer a more competitive price to customers.

Average costs
The example of the CD shows the benefits of economies of scale, where mass production results in a lower unit cost. The reason is that the fixed costs do not change and are spread across a greater level of output.
Finding out the average cost of production helps a firm to monitor its progress, and makes it easier to set prices. It is calculated by dividing total cost by total output.
Using the example of the compact disc firm above:
$^{\text{Total costs}}/_{\text{Total output}}$ = Average cost of production
$^{£1,000}/_{100\text{ CDs}}$ = £10 per CD
This might seem expensive, but if the firm produces another hundred units at a marginal cost of £1.00 per CD, its average cost will fall radically:
$^{\text{Total costs}}/_{\text{Total output}}$ = Average cost of production
$^{£1,100}/_{200\text{ CDs}}$ = £5.50 per CD
The firm can use this information to decide whether it is worth accepting a new order for goods.

Branding and packaging
The basic function of packaging has always been to protect and contain a product. In a competitive market, branding and packaging are important and have become an integral part of the product. We instantly recognise products by the size, shape and colour of packaging.
The marketing department give a product a unique look and decide on the package design. This will incorporate the brand name and will differentiate the product from competitors.This is known as a unique selling point.

Package design
The shape, size and colour are important factors when packaging a product. The marketing department will want to make the packaging attractive and distinctive. Coke's packaging is dominated by red. This helps consumers to recognise a product instantly, when they are in a shop. The same applies to the shape of the packaging. Deodorants and shampoos, for example, come in all shapes and sizes. Remember that the actual product is inside the container, so the packaging and advertising are all that will attract us to try a product in the first place.

Brand name and logo
Large manufacturers understand the importance of their brand name. Kellogg's, Adidas and Microsoft are all household names which we associate with quality. As a result, we are likely to buy one of their products when we go shopping rather than an untried or unknown one even if it is say, a supermarket's own brand. This is why it is important for their brand name or a striking logo to be prominent on packaging.

Product differentiation
The main aim of product differentiation is to give a product a distinctive image which will differentiate it from similar products. An expensive perfume or aftershave might be sold in an elegantly designed bottle. This sort of packaging suggests quality and would be targeted

at a person with taste. Even if the product itself was not very good, the packaging alone could give the impression that it was.

Effects on consumer behaviour

Brand loyalty

The success of a product through branding can lead to brand loyalty. A positive buying experience results in repeat sales. Consumers tend to stick to a product if we like it. This in turn can lead to a trust in other products under the same brand name.

Buying behaviour

There are so many products on the market, many of them similar to each other, that the decision to make a first time purchase can be a difficult process. If we don't know about the product already, we take advice from people who do or we read the magazine reports about it. Without personal recommendation, we rely on advertising and the product's packaging to help us make a buying decision.

In a highly competitive market, the marketing department try to make their products stand out against the rest. A supermarket is a good example of this, with shelves full of almost identical products to choose from. The challenge facing the package designer is how to grab our attention so we make an impulse buy [a spontaneous decision to buy].

The 4Ps and the marketing mix

The 4Ps are the ideas to consider when marketing a product. They form the basis of the marketing mix. Getting this mix right is critical in order to successfully market a product. The 4Ps are:

1. **Product**
2. **Price**
3. **Promotion**
4. **Place**

If market research is carried out effectively, a company can plan a **promotion** for the right **product**, at the right **price**, and to get it to their chosen market, in the right **place**.

Now look at the 4Ps in more detail.

Product

A product can be either a good or a service that is sold either to a commercial customer or an end consumer. A customer buys a product, and a consumer uses it. Sometimes these are one and the same, as an industrial firm can also be a customer and a consumer. For example, British Airways might buy aeroplanes from British Aerospace, so it is a customer. It won't sell on the planes to another buyer, as BA needs the planes to provide its service, so it is also a consumer. Sometimes a wide product range[range of goods that a firm produce] covers both (Mercedes produce lorries for haulage companies, and cars for domestic use).

More commonly, there will be a number of sellers forming a chain of distribution. For example, a gold mine may sell gold to a jewellery manufacturer, who in turn will sell on rings to wholesalers and retailers, before we get to buy them in the high street. Each is a customer, but only the **final user is the end consumer**. A marketing manager will identify who his/her target market[the end-user or consumer group ,whom a producer aims to sell] is, what they want, and sell it to them at each stage in the chain.

Price

No matter how good the product is, it is unlikely to succeed unless the price is right. This does not just mean being cheaper than competitors. Most people associate a higher price with quality, so you would expect to pay more for a Rolls Royce than for a Lada. On the other hand, is one cola worth more than another, and if so, how much?
As a rule, a producer of luxury or medical products will use skim pricing or premium pricing[high price to maximize profit] initially, in order to maximize its profits. This is useful, as it helps them to recover expensive research and development costs quickly.
For fast moving consumable goods (**fmcg's**) like colas, penetration pricing[lower price to increase market share] is usually used. The firm will want a large share of the market, so will settle for a small profit on each item. In the long term, they hope that the turnover, and therefore their profits, will be high.
The simplest method of all is cost plus pricing, where a firm adds a profit mark-up[profit added to the cost by resellers] to the unit cost.

Promotion

The main aims of promotion are to persuade, inform and make people more aware of a brand, as well as improving sales figures. **Advertising** is the most widely used form of promotion, and can be through the media of TV, radio, journals, cinema or outdoors (billboards, posters). The specific sections of society (**market segments**) being targeted will affect the types of media chosen, as will the cost. If you were a toy manufacturer, you might want an advertising spot during children's TV. If you ran a local restaurant, you might choose a local paper or radio.
A small or local business would not usually advertise on TV, because it is very expensive. **Sales promotion** is designed to encourage new and repeat sales. Loyalty cards, free gifts, competitions and voucher schemes are the most popular.
Companies use **sponsorship** and **public relations** to improve their image, notably through financing sports, the arts and public information services.

Place

Distribution channels are the key to this area. A firm has to find the most cost-effective way to get the product to the consumer. Direct marketing through catalogues, via a TV shopping channel and through the Internet have become popular, because the consumer can shop from home.

For the firm, they can cut out the middleman in the process, and can therefore make more profit. Going through wholesalers and high-street retailers, however, is the most popular form of distribution, as that is still where most people shop.

The marketing process

A firm will gather information about the marketplace (eg whether house prices are rising or falling), and then research consumers' needs. From this, it will identify who its **market** is, and then put together a **marketing plan** based on the findings. The marketing mix will be central to this, and finding the right balance in each of the 4Ps is very important. The firm can then review and adapt their plan when they need to. You should remember the following points:

- Although marketing is consumer-orientated, the main aim is still to be **profitable**.
- A good marketing manager will try to **differentiate** their product (ie make their product stand out against similar competitive brands).
- Whatever pricing decision is made, the most important factor is to break even.
- Making it as easy as possible for the customer to buy the product will help sales to increase.

Marketing is about responding to consumers' needs. It is very important to find out what these needs are before a marketing plan is put together.

Types of research

Market research is the collection of information or data to better understand what is happening in the market place. A firm's marketing department needs to know about economic trends, as well as consumers' views. Based on this information, they can put together a marketing plan, which will meet their own needs as well as those of their consumers.

There are two general types of research:

- **Primary** or **field** research
- **Secondary** or **desk** research

Primary or field research

The marketing department of a firm or a specialist research organisation can provide this. Typically, the data is gathered in face-to-face interviews, by telephone, by post or via the internet, using questionnaires. This is called a **survey**. Sometimes potential consumers are asked to test products, and their responses are recorded.

Field research[getting primary or new data] has the advantage that the firm itself has control over the whole process. The disadvantages are that it takes longer and is more expensive.

Secondary or desk research

This is the use of **existing data** that has already been collected.

It can be anything from a company's own sales statistics to Department of Trade and Industry reports. Other secondary sources of information include journals, company reports, government statistics, and surveys published by research organisations. Traditionally, these have been paper-based, but more and more information is now available on CD-ROM or on-line through the Internet.

Desk research[getting secondary or existing data] has the advantages of being cheaper and quicker than field research. The disadvantages are not knowing if the findings are accurate, or how relevant they will be to your product.

The research process

Marketing departments need to have information so they can get their marketing mix right. For example, they will want to know what similar products already exist and how much they cost. They will also want to know whether consumers will want to buy their new product, and what they think about it. The process for doing this is as follows:

1. **Identify the problem**
2. **Set objectives**
3. **Gather data**
4. **Analyse data**

Now have a look at the process in more detail. If you were a marketing manager, you might do the following things:

Identify the problem

Make sure you know what you are trying to find out, and how it will help you. This is something that people sometimes forget. There is an endless amount of information available, so it is important to be focused.

Set objectives

You have to decide which are going to be the best ways to gather this information. Choose the most appropriate reports and journals. Depending on how much time you have, choose what field research you can do. Designing questionnaires and testing products on consumers can take a long time. You also have to decide whether you have the necessary skills, or whether you need to use a specialist research organisation. This is a more expensive option.

Gather data

You would usually do desk research first, because it is cheaper and quicker. Then supplement this with field research, so that you don't duplicate your findings. Designing the questionnaires and conducting the surveys takes place during this phase.

Analyse data

Now that you have the findings, you have to work out what they are telling you. If you identified your objectives before you started, this should not be too difficult. You must look for trends and patterns. Then you should see how this affects your marketing mix. For example, if you were thinking of setting a price for your product of £10 per unit, and 70% of the sample group think this is too high, then you may need to consider reducing the price. If you don't, you may find that few consumers will buy it. But remember: no survey is perfect. There is always a margin of error.

Market segments

Just as you can divide an orange up into segments you can divide the population as a whole into different groups of people or segments that have something in common. Segmenting the market makes it easier to identify groups of people with the same consumer needs and wants. Marketers therefore look for categories they can use to divide up the population.

There are five commonly used categories:

- Age
- Gender
- Culture
- Income
- Lifestyle

Age

The population can be divided by age in years (eg 0-16, 17-25) or by the stage of life reached (eg schoolchild, teenager). For example, a pensioner will have similar needs to those of other pensioners but different needs from those of a teenager.

Gender

Products may be targeted at a specific gender group. For instance, cosmetics have been traditionally targeted at women while DIY has been targeted at men.

Culture

People's needs and wants as consumers will vary according to their religion, language, social customs, dietary habits and ethnic background. In the UK businesses provide for a wide range of different cultures. For example, there are magazines and newspapers in many different languages and Halal butchers in areas with large Muslim populations.

Income

The population can be segmented according to annual salary (eg £15,000, £30,000 etc.), or type of job and social class. Establishing a group's disposable income[money left after essebtial incomes] is important so that products can be targeted to the relevant income group. This is called a socio-economic segment. The socio-economic groups A, B, C1, C2, D and E describe how much the head of the household earns.

Lifestyle

People are grouped according to the way they lead their lives and the attitudes they share. For example, young professionals may drive a sports car because of the image they want to project. Married parents might want the same things, but have to provide for their children, which is a large extra cost. They will need a family car to suit their lifestyle.

Market segmentation

Marketing departments use segmentation so they can target their products more accurately. It affects each of the 4Ps in their marketing mix:

- Product
- Price
- Promotion
- Place

If the product is effectively segmented a company will be able to promote the right product, at the right price and use the right distribution to reach the place where the consumers are.

Now look at the way the 4Ps are used in market segmentation.

Product

Firms have a range of products that will be targeted at different groups or segments. For example, a car manufacturer will often have a range that includes a family model, an executive model and a sports model. Lifestyle segmentation will be used to develop their product line and to target their products.

Price

Price and quality are obviously linked but not everyone can afford to buy the most expensive goods. There is a large range of televisions on the market, for example, each with slightly different features. Within this range of products, there will also be a range of prices to cater for varying disposable incomes.

Promotion

Studying how a product is advertised can reveal its target market . A mobile phone company recently used advertising campaigns that varied for men and women. The male phone was pictured in black and white, and all its features and business applications described. The female phone was in bright colours, and was pictured as a matching accessory to go with a woman's lipstick and handbag. You may not agree with this stereotyping, but it is a good example of gender segmentation.

Place

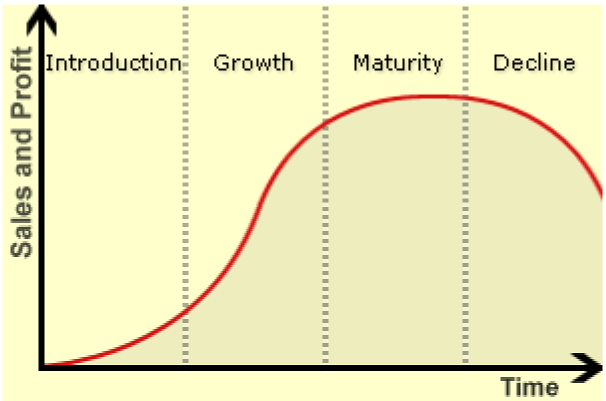
A firm needs to know where its target market is. For example, a producer of Kosher food needs to identify areas where Jewish people live. The firm would have to consider how best to get its product to these areas. This is an example of cultural segmentation.

Product lifecycle

All products have a limited life both for the consumer and the producer.

The product life-cycle

When we buy a product we need to know how long it will last. Perishable goods, like fruit and vegetables, have a short lifespan. Durables like a car have a longer lifespan. Different products last for different lengths of time but their life-cycles have elements in common and follow this curve:



The product life-cycle

Introduction

The product is tested and developed before it is launched. Initial sales will be low until the consumer starts buying. At this point, production costs are much higher than the revenue from sales.

Growth

As sales increase production becomes more profitable. The early development costs can be recovered. The success of the product can lead to brand loyalty and repeat sales.

Maturity

The product reaches its peak of sale and is at its most profitable point for the company. Competitors have now entered the market which may reach saturation point[when market is full of products it becomes difficult for a product to make additional profits].

Decline

As new models and designs come out, or fashions change, a product may become obsolete[outdated] . Sales fall, as does revenue. It is no longer profitable to produce it.

Applying the product life cycle to the marketing mix

Marketing teams watch for changes in the business environment and react to them. They respond to consumer needs, the actions of competitors or government and use the following strategies during each stage of the product life cycle.

Introduction

To make the target market aware of the new product it is important to heavily promote it. A special introductory price[firstly less then rise] may help push the product.

Growth

As sales and profitability increase, the selling price may be reduced to make the product more attractive. Continued advertising around the brand name will help to sustain sales. The marketing team may consider expanding its distribution, to reach more consumers.

Maturity

Competitors will usually have entered the market at this stage. If their products are as good but cheaper the company may lose some of its market share. The pricing strategy must be reviewed. Marketers may also put added value onto their product, by offering accessories or insurance, for example.

Decline

Marketing cannot save a product at this stage, but targeting a different and smaller segment can prolong its life.