

GCSE **Business**

for Edexcel

The background of the cover is a stylized, low-angle view of a city skyline. The buildings are represented by various shades of blue and purple, creating a sense of depth and perspective. In the upper right quadrant, a small black silhouette of an airplane is shown flying against a lighter blue sky. The overall aesthetic is modern and professional.

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The logo for 'informe' features a small globe icon to the left of the word 'informe', which is written in a bold, lowercase, sans-serif font.

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Paul Hoang, Margaret Ducie and Sam Cleary

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The dynamic nature of business

Aims

By the end of this chapter, students should be able to understand:

- why new business ideas come about: changes in technology, changes in what consumers want, and products and services becoming obsolete.
- how new business ideas come about: original ideas, and adapting existing products/services/ideas.

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Why new business ideas come about

Businesses exist to produce goods and services to satisfy the needs and wants of individuals, for which they hope to earn a profit and fulfil other objectives such as: increasing market share, survival, being the market leader or being a socially responsible business (see Chapter 1.3.1). Businesses produce new goods and services for many reasons including, changes in technology, new tastes and preferences and goods and services becoming obsolete. To stay competitive businesses may also introduce new products or services or adapt existing goods and services to fill gaps in the market.

Changes in technology

Technology is constantly evolving and new products and services are created as a result. Businesses such as Apple introduce new products to the market such as the Apple Watch. The Apple Watch is product-oriented as Apple designed and made a product which it hoped is attractive to consumers (rather than producing a watch that was based on market research conducted by the firm). Innovative and high-tech products are often product-oriented.

The growth of the internet has changed the way in which we communicate, store and access information. There has been an increase in the demand for mobile apps for smartphones and laptops. Businesses such as Facebook, Twitter, Instagram and Snapchat provide social media platforms. Almost all businesses have websites and this has created a need for web designers and computer programmers.

The increased use of smartphones has also led to greater demand for earphones, headphones and other accessories (such as cases, screen protectors, cleaning liquids and chargers). Cloud computing services are necessary for storing files, photographs and other information. Businesses such as Dropbox and Box have created storage and sharing facilities. The market for such services continues to grow and evolve.

Businesses such as Microsoft, Apple and Adobe continue to create and update software to use with their hardware.

The growth in digital radio, digital television, e-books, digital films and digital photographs has created new openings for software designers, sharing platforms, website designers and sites where people can publish their work. There are openings for shared workspaces offering Wi-Fi, meeting spaces and refreshment facilities.

Changes in what people want

People's needs change over time and businesses exist to meet these needs. For example, in the UK there has been an increase in demand for foods for people with specialist diets, such as gluten-free food and non-dairy milk drinks and therefore businesses start to provide them. People need external battery packs for smartphones, plugs with USB connections and businesses produce new products and adapt existing products to meet these needs.



Giving experiences such as a hot air balloon ride to people as a gift is a growing trend.

The increase in online shopping has increased the demand for delivery services. This includes greater demand for food deliveries to offices, schools and homes.

Giving experiences to people as a gift is also a growing trend. The increased use of social media has contributed to this trend as people like to post pictures and videos of themselves, doing interesting things, on platforms such as Instagram and Facebook. This has created a demand for such experiences, for example bread baking, pottery, martial arts lessons, attending football matches, driving a classic car, a hot air balloon ride, swimming with dolphins, action holidays and volunteer experiences.

Products and services becoming obsolete

Some products and services have become obsolete such as non-digital cameras, CDs and DVDs. This means that businesses such as photograph developers and retailers that sell CDs and DVDs face minimal demand for their products, so will eventually go out of business. Apple's iPhone, first launched in June 2007, introduced the world to the use of smartphones on a mass scale, making analogue and digital phones obsolete products.

How new business ideas come about: original ideas

Original products are created such as driverless cars and drones. Airbnb and Uber are examples of a new business model which is completely digital and relies on the concept of a sharing economy. Airbnb and Uber allow flexibility for employees as well as customers. As soon as one firm enters a market and is successful other firms will enter the market in an attempt to take some of the available profits.

Businesses are created to fill gaps in the market or because a person has an original idea. In 2007, Shaun Pulfrey, a hair stylist from London, had an idea for a hairbrush designed to detangle hair easily. He created the Tangle Teaser hairbrush, which is now available in many designs, sizes and shapes and his business empire is worth £200 million.

Adapting existing products/services/ideas

Extension strategies are used to prolong the life of products. Nestle produces KitKats in different flavours, for example: orange, green tea, cookies and cream. It produces limited editions and bars in different sizes.

Toothbrush and toothpaste manufacturers frequently create new features and qualities in their toothbrushes, for example, bristles which fade to indicate when a new brush should be purchased and toothpaste for people with sensitive teeth. Soft drink manufacturers adapt drinks to have zero calories and natural sweeteners instead of artificial, e.g. Coca-Cola Life is sweetened with stevia, a natural sweetener. Lego revitalised the brand by creating Lego models based on films and books such as Star Wars and The Hobbit and creating Lego 'Friends' which is aimed at girls.

Old and existing products and services sometimes become fashionable again such as Silver Cross prams, scooters for children and traditional barbers that provide grooming services to cater for the current fashion of men with beards.

Exam style question

Identify the reasons why the following businesses came about:

- (a) Furniture shop specialising in vintage furniture.
- (b) A bed and breakfast offering an authentic 1940s experience.
- (c) An online business where you can send a 'cream tea' (scones, cream, jam and tea) as a gift.
- (d) A cloud based storage facility for photographs and personal files.
- (e) An app enabling the user to find the best mode of transport in their location.
- (f) A producer of gluten free snacks.

(6 marks)

Chapter review questions

1. State three reasons why new business ideas come about.
2. Give an example of how technology has created a new business idea.
3. Give an example of a good or service which has become obsolete.
4. State two ways new business ideas come about.
5. Explain why a business may adapt an existing product.

Key terms

Goods are physical items which are produced by businesses, e.g. cars, lipstick, toys, cups and saucers.

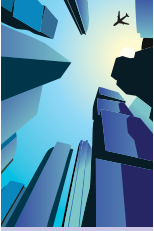
Market orientation occurs when a business designs and makes a product which takes into account the needs and wants of consumers.

Needs are essential goods and services necessary for survival.

Product orientation occurs when a business designs and makes a product which it hopes will be attractive to consumers.

Services are non-physical items such as a haircut, a guitar lesson, and a manicure.

Wants are goods and services which are desired by individuals and firms.



Chapter 1.1.2

Risk and reward

Aims

By the end of this chapter, students should be able to understand:

- the impact of risk on business activity: business failure, financial loss, and lack of security.
- the impact of reward on business activity: business success, profit, and independence.

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Risk and reward

There are many factors which influence whether or not businesses are successful and it is necessary for people who start businesses to accept the risk of failure for the chance of success and rewards.

Risk: Business failure

A decision to set up a business has an element of risk as there is always a chance that the business may fail. Even with meticulous planning and market research, a business may provide goods or services that few people wish to buy.

The business may have chosen to produce or sell products that are no longer in high demand, such as mobile phones, CDs, and DVDs. An upmarket restaurant or shop selling expensive gifts may have been opened during a downturn in the economy (see Chapter 1.5.4) and because both are considered to be luxuries for most people they may be unsuccessful.

The location of a business may be unknown to people or difficult to get to, and therefore the business may not thrive.

Competition in the market may be high and therefore a business may not attract enough customers to remain in business. For example, a shop selling clothing in a small town may not attract enough customers to remain in business. It may be difficult for an independent café to attract enough customers to compete with multinational chains of coffee shops such as Starbucks, Pret a Manger, Café Nero and Costa Coffee.

Risk: Financial loss

All businesses require start-up capital and working capital (healthy cash flow) for day-to-day expenses. They aim to make a profit by covering costs with income from sales. There are many reasons why a business may face the risk of financial loss, such as when it becomes difficult to collect money owed to them from customers.

Other reasons why there is a risk of financial loss include:

- Interest rates (see Chapter 1.5.4) going up, which makes loan repayments more expensive.
- Lack of customers causing monthly income to be less than outgoings.
- A recession or downturn in the economy (see Chapter 1.5.5), causing customers to spend less on goods and services.
- A major emergency such as a flood, fire, or burglary.
- A health and safety crisis, for example, a restaurant causing customers to get food poisoning.

Risk: Lack of security

Entrepreneurs take a risk because they are employed by their own business and may suffer from a lack of security in the form of regular income, especially in the initial stages of the business startup. If they are a sole trader or partnership, they and their business are inseparable as they have unlimited liability (see Chapter 1.4.1) which means they are personally liable for any debts of the business.

A business may not be able to repay a loan or pay their suppliers and this may lead to closure of the business. Small businesses may find it difficult to repay loans as they have less retained profits, poor cash flows and fewer assets (items the business owns such as equipment, property and land).

A small business owner may also lack security because they have a limited product range so if a particular product does not achieve high sales the business has no alternative sources of income to support it.

A small business may only operate in one geographical area. If for example, a bakery, has branches in different parts of a town or city, a successful branch may be able to support a less successful branch. The business also gets wider recognition and can take advantage of bulk discounts for larger orders of supplies.

Large businesses often find it easier to pay suppliers and repay loans because they may own property and land, operate in many countries and therefore if part of the business runs into difficulties in one country this can be balanced by other parts of the business performing well. A business may be able to sell assets (things it owns), for example land and buildings, if it needs to raise funds. Large businesses have more security than small businesses.

Reward: Business success

The definition of success will vary according to the point of view of different stakeholders. Owners and shareholders are primarily concerned with earning a return on their investment whilst managers may focus on the prestige and kudos they can achieve. Rewards can also take the form of financial gain and fame. For example, Facebook co-founder Mark Zuckerberg's accumulated wealth is estimated to be \$72 billion (£55bn) and is an easily recognisable figure in the media.

The criteria that might be used to judge success are as follows:

- **Sales growth** is usually a barometer of success as higher sales means a business is producing a product that is popular. A business with growing sales is likely to be experiencing an increasing market share and provided costs are kept under control rising profit should also follow.
- **Market share** shows the proportion of sales in the market made by the business. Firms attempt to grow their own market share at the expense of their rivals (see Chapter 2.1.1).

Reward: Profit

- **Profit levels** are the most common way a business will judge whether it has been successful. Marks & Spencer might make millions of pounds worth of profit before tax for its shareholders. However, it is important to look at that in the context of the amount of resources and capital employed. A sole trader that makes profit of £50,000 could argue they were more successful in terms of the average rate of return (see Chapter 2.4.1).
- **Customer satisfaction** is a real motivator for some businesses and the owners of these businesses might judge their success partly in the levels of positive customer feedback. Many small business owners, in particular, will take real pride in their work and receive a great deal of satisfaction from good reviews.
- **Dividends** are the share of the business' profit which is given out to shareholders. They are paid according to share volumes so the larger the shareholding the larger the dividend received. If, for example, Marks & Spencer decide to pay a 10p per share dividend then a shareholder with 100,000 shares would receive £10,000 in dividends. High dividend payments reflect large profits which may be as a result of effective management.
- **Job creation** might be seen as a measurement of success. If a business is able to employ a large number of people it can reflect the large amount of output the business is producing and gives the company a large standing in the community and in the eyes of the government.
- **Social benefits** are important for some businesses. Elon Musk creates freeware for other businesses to use. He has been rewarded with profits and his net worth is \$17 billion (£13.35bn). Businesses such as Lush the 'fresh handmade cosmetics' company donate large sums to charity each year, their products are sold using minimal packaging and are made of natural ingredients and therefore they try to minimise the impact they have on the environment.



Independence

- Entrepreneurs who start a business also enjoy the freedom independence brings. They are free to make decisions and can keep all rewards of their business. Ingvar Kamprad, the founder and owner of IKEA, wanted the business to remain independent and therefore not owned by shareholders and financial institutions. IKEA is owned by a foundation and its profits are reinvested, used for charitable purposes or retained in the business.

Exam style question

Lush the 'fresh handmade cosmetics' company was started in the 1970s in Poole in Dorset by Mark Constantine and Liz Weir who created their own natural products for hair and skin. After successfully selling products to the Body Shop for many years they set up another venture of their own called Cosmetics-To-Go, a mail order cosmetics company which unfortunately was unsuccessful and failed. The failure of the business was due to overspending and trying to expand too quickly in the early stages of its life. What was left of the business including the name and product formulae was bought by another small business in Poole and several years later Mark and Liz and the owners of Cosmetics-To-Go got together and started to make and sell handmade products for hair and skin from a small shop in Poole. The name Lush was given to the new venture. In 1996, two Canadians came across the shop on a trip to England and decided that they wanted to open a similar shop in Vancouver, Canada. There are now approximately 105 Lush shops in the UK and more than 900 stores in 50 countries around the world. Lush are fierce advocates against animal cruelty and make donations to charities every year.

Questions

1. Identify the reasons for the failure of Cosmetics-To-Go. *(2 marks)*
2. Describe valuable lessons which were learnt from the failure of Cosmetics-To-Go which led to the success of Lush. *(4 marks)*
3. Identify and explain the rewards the owners of Lush have gained from their business? *(6 marks)*

Chapter review questions

1. Explain the risks associated with starting a business.
2. What is the most common reason for business failure?
3. Explain why business failure is very common.
4. Explain why a small business may lack security.
5. State three rewards which may be earned by business owners.
6. Identify three measures of business success.

Key terms

Customer satisfaction refers to how happy the customer is with the quality of service received.

Dividends are the share of the profits of a company, paid out to shareholders (owners of a business).

Financial security occurs when a business owner has assets or a person who can support them financially if they have difficulties repaying loans or money owed to suppliers.

Rewards are the returns a business owner can expect from a business and include: business success, profit and independence.

Risks are the negatives situations that may arise as a result of starting a business and they include: business failure, financial loss and lack of security.

Social benefits arise when business activity generates positive benefits for society.

The role of business enterprise

Aims

By the end of this chapter, students should be able to understand:

- the role of business enterprise and the purpose of business activity.
- the role of entrepreneurship.

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Role of business enterprise: to produce goods and services

Business organisations exist to produce either goods or services and in some cases both. Apple produces hardware and software, for example, in the form of smartphones and FaceTime. Amazon makes Kindles and provides an online shopping platform.

Hairdressers provide services to customers: haircuts, blow-dries, styling, colouring and in some cases produce hair products. For example, Vidal Sassoon and Toni & Guy make a range of hair products which are sold around the world.

Role of business enterprise: to meet customer needs

Business are either product or market oriented and most goods and services produced are **market oriented**, which means they are designed to take into account the needs and wants of consumers. It is important for businesses to make market orientated products and services so that they satisfy their customers, retain loyal customers and keep up with competitors.

Examples of market orientated products include water bottles with handles designed to be carried by athletes, disposable toothbrushes for use on airplanes, training shoes designed for different sports and gluten-free pasta and bread. Maclaren, a designer and manufacturer of pushchairs for babies and toddlers, constantly upgrade their products to adapt to the needs of customers and fend off competition.



Maclaren Triumph pushchair.

Product orientation

Product orientation occurs when a business designs and makes a product which it hopes will be attractive to consumers. Innovative and high-tech products are often product oriented.

Businesses which have a popular brand name often design and produce products that people buy because they are attracted to the brand name. For example, when Apple introduced the iPad it could be argued that it sold well because of the reputation Apple has for creating innovative products. It can also be argued that the iPad was Apple's response to consumers wanting to watch movies or read e-books on a screen larger than a smartphone. According to some sources Apple had already created the iPad many years before its launch in 2010 and therefore the iPad could be considered to be product oriented.

Other examples of product oriented goods include equipment and machinery made for other producers,

e.g. tools for carpenters, equipment and machinery for farmers, medical equipment for use by doctors and surgeons when performing operations and medical procedures.

Role of business enterprise:

To add value (convenience, branding, quality, design, unique selling points)

Customers pay a particular price over and above the cost of production as it provides added value. Added value refers to the difference between the value of the inputs (factors of production) and that of the finished good or service. Added value = Value of the finished good or service – Value of the inputs (raw materials + labour + production process).

Businesses add value to products and services in a variety of ways:

1. **Convenience** – many firms try to respond to consumers' desires for convenient products. Examples include supermarkets selling vegetables which have been peeled and chopped, cans of tuna fish already combined with mayonnaise, or travel sized deodorants, shampoos and other toiletries.
2. **Branding** – consumers are often willing to pay higher prices for branded products. Supermarkets own brands are cheaper than branded food producers as customers believe that branded products are better quality than non-branded products. A Samsung smartphone will be more expensive than an unknown brand with similar product specifications.
3. **Quality** – products made with better quality materials tend to have higher prices. For example, a wardrobe made from chipboard from IKEA will be cheaper than a wardrobe made from solid oak.
4. **Design** – a custom-made birthday cake, piece of clothing or furniture is likely to be more expensive than a mass produced item. Value is added because of the personal input of the producer and increased time taken to produce the item. A higher level of skill may be necessary to make the good. Some producers use their unique designs as selling points. Bang and Olufsen produce audio equipment which have a unique physical design so some consumers are willing to pay more for design over functionality. Other people would choose a brand which is possibly less aesthetically pleasing but has outstanding audio quality, such as Onkyo.
5. **Unique selling point** – some businesses try to differentiate their products from others by offering something others do not have, such as restaurants where you eat in the dark, fridges with built in ice makers and door locks which open with a thumb print.

The role of entrepreneurship

To produce a good or service a business needs to use the factors of production in varying proportions. The four factors of production are:

Capital – manufactured resources e.g. machinery, tools and equipment.

Enterprise – the skills of a business person required to successfully combine the other factors of production.

Labour – the human resources e.g. skilled and unskilled labour.

Land – the natural resources e.g. oil, coal, wood and agricultural products.

The first letter of each of the 4 factors of production spells the word CELL. This is a useful way of remembering the factors of production.

An entrepreneur:

1. Organises resources (the four factors of production) to make products and/or services.
2. Makes decisions about what to produce, how to produce it and for whom to produce it in response to changing business conditions and needs and wants of consumers.
3. Takes risks because all business decisions have an element of risk as they may not lead to success and the desired result (see Chapter 1.1.2).

Exam style question 1

Salvador wants to set up a business and is seeking advice about the type of product or service he should sell.

Identify the ways in which the following businesses have added value to their products/service:

- (a) Nike training shoes.
- (b) A supermarket selling ready meals.
- (c) A wedding dress made by a well-known designer.
- (d) A camera made in Japan.
- (e) A seller of electronic products which offers excellent after sales service.
- (f) A self-service restaurant where food passes a customer on a conveyor belt. (6 marks)

Chapter review questions

1. Identify three reasons why business decisions come about.
2. Identify two ways that entrepreneurs come up with business ideas.
3. Describe possible risks of setting up a business.
4. Describe possible rewards from setting up a business.
5. Identify and give examples of ways businesses add value to products and services.
6. Identify the main roles of entrepreneurship.

Key terms

Added value is the difference between the value of the inputs (factors of production) and finished good or service.

Branding is when a business has a well-known brand name, image or reputation.

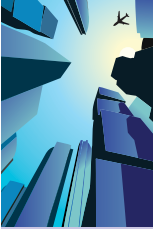
Capital describes the manufactured resources needed in a business e.g. machinery, tools, equipment, computers.

Enterprise describes the skills required by a business person to successfully combine the other factors of production.

Factors of production refer to the four categories of resources required for the production of goods and provision of services: capital, enterprise, land and labour.

Labour describes the human resources required in a business e.g. skilled and unskilled labour.

Land describes the natural resources required in a business e.g. oil, coal, wood and agricultural products.



Chapter 1.2.1

Customer needs

Aims

By the end of this chapter, students should be able to identify and understand:

- what customer needs are: price, quality, choice, and convenience.
- the importance of identifying and understanding customers: generating sales, business survival.

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What are customer needs?

When deciding which product or service to buy in a competitive business environment, customers base their decision making on various factors. Imagine trying to decide which restaurant to go to for a birthday meal. Possibly the most influential factor would be the **price** as customers have an idea how much they are able and willing to spend on the good or service. Associated with the price of a product is the **quality** of a product or service. It is not always the case that higher prices mean better quality, but there is a relationship between price and quality and this would be taken into consideration when choosing between restaurants. It is sometimes difficult to assess the quality of food in a restaurant before trying it and therefore customers increasingly rely on customer reviews which can be found on the internet.

Customers like to have a **choice** of restaurants and often in competitive markets (where there is a large choice for consumers) businesses respond by using non-price factors to attract customers. Examples include: loyalty cards, free gifts, excellent customer service, gift wrapping, reliability, efficiency, and other unique selling points.

Convenience takes many forms. Examples include: 24 hour supermarkets, home deliveries for shopping (once customers spend over a certain amount), online shopping, and restaurants using delivery services such as Deliveroo.

Case study: factors which influence choice of trainers (sports shoes)

Price – What is your budget? Are you going to buy the latest design in trainers, which will be more expensive than an older style?

Quality – Do you need trainers which are going to last a long time because you wear them often or play a specialist sport? Are you going to purchase trainers which are mass produced or specialist trainers for example for long distance running? Are you happy to purchase trainers of lower quality for casual wear?

Choice – Do you enjoy having many styles, colours and designs to choose from or does too much choice overwhelm you? Do you enjoy looking for trainers which are different in design from popular styles or do you like to have trainers which are similar to those of others?

Convenience – Do you like to shop online and spend time looking for trainers on websites such as Sports Direct or do you like to visit shops and try on trainers before buying? Do you prefer to visit shops to purchase the trainers or are you happy to wait for your online delivery?



It is not always the case that higher prices mean better quality, but there is a relationship between price and quality.

The importance of identifying and understanding customer needs

Businesses exist to satisfy customer needs and wants so that customers will purchase their goods and services and generate **sales revenues** which will cover costs, make a profit and ensure **business survival** (see Chapter 1.3.1).

Case study

A new takeaway restaurant called Poulet Rotisserie opened in Leeds City centre. It sells whole chickens cooked on a rotisserie along with accompaniments such as salads and roast potatoes. It also sells a selection of cakes and other desserts. The shop has a few small tables where customers can choose to eat in the shop instead of taking away. It is aimed at people wanting to pick up cooked food on their way home from work or for people to buy when entertaining guests at home and also offers catering for parties. The chickens are cooked with a range of flavours: chilli, traditional and Cajun.

To survive Poulet Rotisserie needs to generate sales. It faces stiff competition from major supermarkets which also sell cooked chickens, salads and food for parties and entertaining. Poulet Rotisserie charges higher prices for its products than supermarkets because it is producing on a much smaller scale and cannot take advantage of economies of scale. It tries to ensure that its chickens and accompaniments are better in quality and offer a greater choice than those found in supermarkets. The opportunity for customers to eat in the shop is another method of generating sales. Poulet Rotisserie also offers free delivery for orders above £50.

Poulet Rotisserie is finding it difficult to compete with supermarkets despite getting positive publicity in local newspapers. Business during the week tends to be quiet and most of their orders for catering services occurs at the weekend. They are considering trying to break into the lunchtime market for office workers by offering a roast dinner takeaway and delivery service to generate sales and ensure survival.

Exam style questions

1. Outline the customers' needs that Poulet Rotisserie has identified. *(4 marks)*
2. State two ways in which Poulet Rotisserie has tried to differentiate itself from its competitors. *(2 marks)*
3. Analyse the decision of Poulet Rotisserie to offer a roast dinner takeaway and delivery service. *(6 marks)*

Chapter review questions

1. Identify the four needs of customers.
2. Give examples of each of the four main customer needs when considering at which supermarket to buy groceries.
3. Describe the main reasons a business has for satisfying customer needs.

Key terms

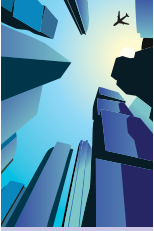
Business survival – when a business manages to generate sales sufficient to cover costs in the short term (near future) and in the longer term to cover costs and create profits.

Choice – the number of similar goods or services available in a market for the customer to choose from.

Convenience – the ease with which the customer can purchase and use or experience the good or service.

Price – monetary cost of the good or service to the customer.

Quality – the product or service is value for money, of a good standard and fit for the purpose intended.



Chapter 1.2.2

Market research

Aims

By the end of this chapter students should be able to understand:

- the purpose of market research.
- the various methods of market research.
- the role of data in market research.

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The purpose of market research

Market research is the process of gathering, analysing and presenting information about a specific market, its customers and market trends. It provides information for decision-making because the business has a fuller understanding of its market.

Market research is carried out for 4 main reasons:

1. To identify and understand consumer needs.

Market research has helped low cost airlines such as Ryanair to develop a new type of airline that focuses on a 'no frills' model. Surveying their passengers helped the firm to design a highly profitable service which prioritises low fares and convenience over extras like complimentary food and drink.

2. To identify gaps in the market

Nando's have undertaken thorough market research when identifying new sites for their ambitious expansion program of the last few years. It is important to assess whether a town or a district has sufficient demand for the casual dining experience they offer and to take the existing level of competition into account before investing in setting up a new restaurant.

3. To reduce risk

Any new business venture carries an element of risk. Apple invested a lot of money into developing and launching their iPad range of tablet computers. Carrying out a range of different types of market research such as surveys and product testing will have provided them with a degree of confidence that it was a risk worth taking and the products have proved a success.

4. To inform business decisions

Businesses decisions such as the decision from PureGym to invest heavily in new sites would have been made in the context of market research which suggested a growing appetite among UK fitness enthusiasts for a pay-as-you-go gym model which didn't lock customers into long and expensive contracts. The owners of PureGym will have found the decision making process more straightforward with the benefit of extensive market research that backed their business model.

Hence, market research is essential for a business to gain a competitive advantage over its rivals because it enables the business to adapt to changing market trends. However, market research can have its limitations, such as biased (unrepresentative) findings and outdated information being used to draw conclusions.

Market research can also be categorised as **primary research** (new data that has yet to be collected for a specific purpose) or as **secondary research** (data that has already been collected by someone else).

Primary research

Primary research is the gathering of data that does not already exist, i.e. it is the collection of new and original data. It is not usually possible to collect data from every existing or potential customer (known as the **population**). Therefore, businesses use **sampling methods** to get statistically valid results from a portion of the population (known as a **sample**).

There are numerous methods of primary research, including:

- **Questionnaires** – These are paper-based surveys, such as ones conducted by an interviewer or sent in the post for people to respond. Hotels often use questionnaires to get feedback from their customers.
- **Online surveys** – Similar to questionnaires, online surveys make use of email or the internet to conduct primary research. These have grown in popularity as they are cheaper and faster than questionnaires.
- **Interviews** – This involves an interviewer asking individuals a series of questions. The two main forms are ‘face-to-face interviews’ (conducting the research in the presence of the interviewees) and telephone interviews (using telecommunications to conduct the interviews).
- **Observations** – This method involves the business observing and recording *what* people do and *how* people behave, e.g. observing shopping habits of customers in a supermarket.
- **Focus groups** (also known as **consumer panels**) – This involves asking in-depth questions to a small group of people (the panel) when a business wants to gauge opinions about a product, forecast market trends or launch a new product.
- **Test marketing** – This involves experiments being conducted in selected areas to test the response of customers before launching a product on a mass scale. To launch a new product is often very expensive, so test marketing helps a business to reduce risks of launching unsuccessful products.

The advantages of primary research include:

- Relevant data is collected for the specific needs of the business.
- Up-to-date information is gathered.
- Uniqueness of the data as no one else has collected it.
- Confidentiality can exist as no one else has access to the primary data that has been collected.
- Control over what and how data is collected is improved as the researcher can decide on requirements such as the sampling method and the timeframe of the research.
- **Closed questions** in interviews and surveys have definite answers (such as ‘yes/no’ or ‘male/female’) so makes it relatively easy to aggregate the results of the respondents.
- **Open questions** allow businesses to gain insight to the views and opinions of respondents by allowing them to develop their answers (such as ‘Why do you prefer to buy...?’).

The disadvantages of primary research include:

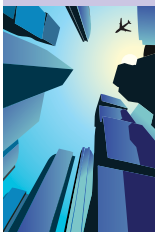
- Time-consuming processes of primary data collection and analysis (it is usually quicker to use secondary data sources).
- Expensive as the information is not readily available, e.g. the cost of hiring interviewers and conducting focus group meetings.
- Validity of the primary data might be questioned, such as:
 - the chosen sample size might be too small, so results are not representative.
 - the sampling method used might introduce bias, again reducing the validity of any findings.
 - poor research design, e.g. poorly worded questionnaires.
 - the possibility that research data becomes outdated by the time the investigation is completed.

Secondary research

Secondary research involves the collection and analysis of information that already exists. The information can come from internal sources (such as company annual reports and corporate websites) or from external sources (such as news media, government economic data and market review websites).

Secondary research methods:

- **Internet** – There is a wealth of information on the internet that a business can use to find out about their market. A restaurant planning to open in a certain area can go to websites like OpenTable to get a sense of the needs and wants of the local consumers.



- **Market reports** – market reports are reports produced by businesses and consumer watchdogs to provide information about what is happening in a particular market. For example, an estate agent can easily find house price reports from lenders like Halifax to get an idea of key market trends in their region.
- **Government reports** – the Office for National Statistics (ONS) reports regularly on a wide range of metrics that can be vital for businesses trying to find out more about their target market. For example, the number of households in an area or demographic changes such as the level of immigration.

The advantages of secondary research include:

- Cheaper and less time-consuming to collect as the information has already been gathered by someone else.
- Faster access to data as the information can be readily available, such as company information and data available on the World Wide Web.
- More accessibility, e.g. the internet has improved access and opportunities to conduct secondary research.

The disadvantages of secondary research include:

- Outdated information (because the information is not new) means there is little value to the business.
- Incomplete data is likely to exist as the secondary data was originally collected for a different purpose.
- As there is potentially so much secondary data, much of the information might prove to be irrelevant or inappropriate for the purpose of the business.
- Widely available data means that rival companies also have access to the secondary data, thereby reducing any competitive advantage that the business might have.

The use of data in market research: Qualitative and quantitative research

Market research can be categorised as either qualitative or quantitative. **Qualitative research** seeks to understand how and why people behave in a certain way, such as why some consumers might prefer an iPhone over a Samsung mobile phone. Examples of qualitative research include in-depth interviews, focus groups and observations.

Quantitative research involves the use of numerical and quantifiable data, such as a company's own financial records and official government statistics. It is often used to establish trends (such as rising demand for wearable technology) and relationships (such as the correlation between consumer income and the demand for cars).

Social media

The increasing use of social media has provided many different types of businesses with the opportunity to find out more about their market. Twitter might allow a budding entrepreneur to search for other companies that are in a market and make judgements about the strengths and weaknesses of their brand and their product or service. Instagram and Facebook contain billions of consumers giving detailed feedback (often with photographic evidence) on their consumption of goods and services. This information can be used by businesses to tailor their products to the wants and needs of an increasingly discerning and well-informed consumer.

The reliability of market research data

Market research data may lead to a business taking a significant change of direction. It might be that a new pricing strategy is adopted, or perhaps a significant investment is made into the research and development of a new type of product. If the decision to take such risks is to be worthwhile then the business owners must have a high degree of confidence in the market research data. However, the reliability of the data

that is being used to guide the business is often questionable. Reasons for data being flawed include biases due to not enough data being collected or due to interviewers asking leading questions.

A classic example of when a market research failure can cost a company millions was when Coca-Cola tried to change the taste of their drink in the 1980s. Focus group and product testing results were favourable and tens of millions were poured into the development and marketing of 'New Coke'. However, when the product did arrive in the shops it completely failed and the old flavour was quickly reinstated.

Exam style question 1

1. Which **two** of the following are examples of primary market research? (2 marks)
 - (a) A café looking at the McDonald's website to assess their pricing and product range.
 - (b) A home furnishing shop finding out the average rate of home ownership in their town from the local authority.
 - (c) A clothing brand conducting a focus group with teens to assess responses to their new designs.
 - (d) A Bed and Breakfast looking at their competitors' reviews on [tripadvisor.com](https://www.tripadvisor.com).
 - (e) A call centre calling back customers to ask them about their view on the standard of customer service received.
2. Explain one advantage for a training company that uses social media as its main method of market research. (3 marks)
3. Explain one disadvantage to a business of relying solely on quantitative data in their market research. (3 marks)
4. Discuss the factors a small business owner should consider when deciding which type of market research to use. (6 marks)

Chapter review questions

1. What is meant by 'market research'?
2. Why is market research important to a business?
3. Distinguish between primary research and secondary research.
4. Distinguish between quantitative and qualitative research.
5. Outline the advantages and disadvantages of primary research.
6. Outline the advantages and disadvantages of secondary research.

Key terms

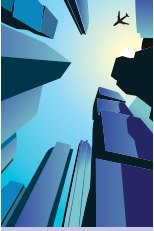
Market research is the process of gathering, analysing and presenting information about a specific market, its customers and market trends. It allows businesses to make more informed decisions.

Primary research (also known as **field research**) is the gathering of data that does not already exist, i.e. it is the collection of new data.

Qualitative research seeks to understand *how* and *why* people behave in a certain way through methods such as in-depth interviews, focus groups and observations.

Quantitative research involves the use of numerical and quantifiable data, such as financial records and government statistics, to establish market trends and relationships (correlation).

Secondary research (also known as **desk research**) involves the collection and analysis of information that already exists, from sources such as company annual reports, corporate websites and the news media.



Chapter 1.2.3

Market segmentation

Aims

By the end of this chapter, students should be able to understand:

- the meaning of market segmentation.
- how businesses use market segmentation to target customers by identifying: location, demographics, lifestyle, income, and age.
- market mapping to identify a gap in the market and the competition.

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Market segments

Market segmentation occurs when a business divides the total market for a good or service into different parts (or segments) by grouping together individuals, organisations or families with similar characteristics. Examples of how businesses segment markets include:

Location

- By geographical area, for example: rural, urban or a particular region of the country.

For example, supermarkets located near to a beach will stock more buckets, spades and water toys than a supermarket located in the countryside.

Demographics

- Ethnicity (e.g. African, Chinese, Asian, Caucasian, or Indian).
- Religion (e.g. Jewish, Christian, Rastafarian, or Muslim).

Examples include: supermarkets selling a wide range of food products to cater for different cuisines and cultures. McDonald's in India makes burgers from pork and not beef to accommodate local culture and customs.

- Gender (male or female).

Examples include: different colours or designs of training shoes to appeal to different genders. Coca-Cola launched Coke Zero, in a black can, to appeal to men and be an alternative to Coke Light (Diet Coke).

Lifestyle

- Lifestyle (e.g. outdoors, sports, music lover, animal lover, vegetarian, or train spotter).

Examples include: clothing aimed at hikers, specialised camping equipment for serious campers, tents with floral designs for 'glampers' (people who enjoy glamorous camping), bags to carry yoga mats, waterproof bags for swimmers, and vegetarian options in restaurants. A magazine shop is a good example of market segmentation as it sells magazines to cater for a wide range of interests which include cooking, motorcycles, cars, trains, wine and beer making, photography, and interior design.

Income

- Income (e.g. unemployed, low income, middle income, and high income earners).
- Socio-economic groupings in a population divide people by occupation, e.g. unemployed, unskilled workers, skilled workers, and professionals.

Examples include: retailers of designer clothing choosing to locate in an area where customers have high incomes, such as in Chelsea and Kensington in London. Factory outlets and discount stores may locate in areas with inhabitants with lower incomes or where land is readily available.

Age

- Age categories include: young children, teenagers and old age pensioners.

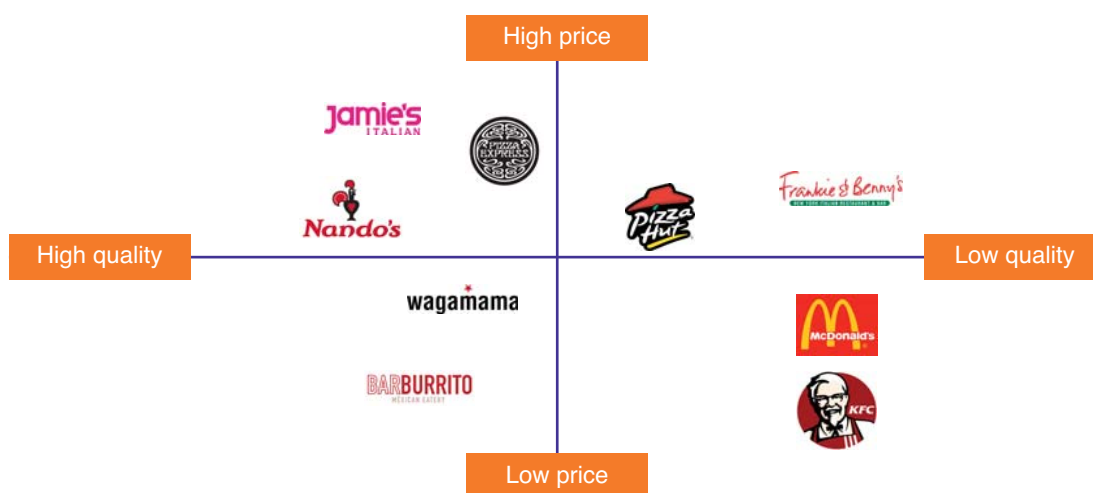
Examples of goods and services aimed at different age groups include: indoor play centres for toddlers, ballet and art classes aimed at young children, tuition centres for GCSEs and A Level students, bingo halls, shops selling mobility scooters, and swimming lessons for adults.

Market mapping

Market mapping is a visual tool used to identify the competitors of a business and gaps in a market. A map of a market is created using chosen variables, for example, price and quality, to identify the position of businesses in a market. Other examples of variables used in market mapping include mass market versus niche market, and traditional versus fashionable.

The market map in Figure 1.2.3a shows restaurant chains in the UK, and indicates that there is a gap in the market for more high quality and reasonably priced restaurants. There are many restaurants in the medium quality and medium price range and therefore this part of the market is very competitive (or saturated). This market map may help a restaurant owner to decide which part of the market to target. On the other hand, the map may not be entirely accurate and be incomplete. Market and consumer preferences change all the time, so even though it looks as if there is currently a gap in the market this may not be the case when the new restaurant opens.

Figure 1.2.3a: Market map of restaurant chains in the UK



Advantages of market maps

- Market maps provide a visual image of the position of businesses in a market and may lead to decisions about where a new firm in a market should position themselves to fill a gap or take on competitors.
- A market map may help a business identify the key characteristics of a competitor and help them to design features that differentiate them from competition so they can attract more customers.

Disadvantages

- The map is based on opinions of the creator (although it can be based on market research of customers to gauge their perceptions) so may not be entirely accurate.
- The environment in which businesses operate is constantly changing and the popularity of products can change at any time. The map is static, and not necessarily an accurate picture of the market.

Exam style questions

1. Explain one advantage to a business of using a market map. (3 marks)
2. Explain one disadvantage to a business of using a market map. (3 marks)



Demographics are characteristics of a population of people which include: age, gender, ethnicity, nationality, or religion.

Chapter review questions

1. Outline three ways a market can be segmented, such as the market for digital cameras.
2. Why might businesses find market segmentation a useful tool?
3. Describe two reasons why a business may create a market map.
4. What are the limitations of using a market map to make business decisions?

Key terms

Demographics are characteristics of a population of people which include: age, gender, ethnicity, nationality, or religion.

Market mapping is a visual tool used to identify the competitors of a business and gaps in a market. It is created using chosen variables, for example, price and quality.

Market segmentation occurs when a business divides the total market for a product into different parts or segments by grouping together individuals, organisations or families with similar characteristics.

Socio-economic groups in a population segment people by occupation e.g. unemployed, unskilled worker, skilled worker, or professional.