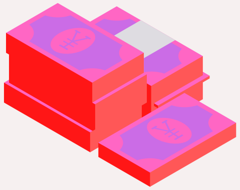
The difference between risk and uncertainty



All businesses face the challenge of risk and uncertainty

1. Risk exists because entreprenures commit resources that could be lost. Start ups face this risk
2. Businesses also must deal with uncertainty . Uncertainty exists because businesses operate in an everchanging environment

Types of Markets

Consumer goods market

Markets for services

The housing market

Commodities markets

Financial Markets

THE MARKET

Markets are a places where buyers and sellers come together to tade goods. However in modern markets this can happen through the internet

Marketing

Marketing involves a range of activities to support the process of communicating with customers with the goal of selling them products that meet their needs.
Marketing involves:

- Understanding custimers needs
- Understanding the dynamics of the market
- Developing succcesful products
- promoting the business and its products

Mass and Niche Markets

- Targeting a large population of the market with a generic product
- Requires production on a large scale and investment in capacity
- Potential for high sales revenue
- May compete with many other businesses in the market
- Promotion will involve mass market techniques such as TV and newspapers

MASSMARKET

- Targeting a small populationof the market with a specialised product
- Production on a small scale
- Low volumes but high profit margins
- Few competitors but limited number of potential customers
- Promotion through specialist mediums
- Direct Marketing
- Business will have to compete on quality and customisation in order to succeed

NICHE MARKET

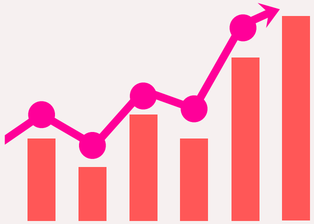
- iN SOME INDUSTRIES TECHNOLOGY HAS ALLOWED BUSINESSES TO PROFILE INDIVIDUALS AND CUSTOMISE THEIR PRODUCTS SO THAT THEY CAN TARGET CUSTOMERS AS INDIVIDUALS SUCH AS ONLINE BESPOKE GREETING CARDS

THE DYNAMIC NATURE OF MARKETS

Markets can have very different characteristics and over time change significantly. Businesses need to understand the changing nature of a dynamic market and must adapt in order to remain competitive

Dynamic Markets

- Economic growth
- Innovation
- Social Change
- Demographic changes
- Changes in legeslation



Market size and market share

The size of a market can be measured by value or volume
Market share is the proportion of a particular market held by a business.
Market share can be calculated by:
sales of a business/total sales in the market X 100

Adapting in a dynamic market

The most succesfull businesses are those that can adapt and keep up with the changes in their market. Succesful businesses adapt by:

1. Being flexible in the way they operate
2. Carrying out market research to have a better understanding of their customers
3. Investment in new technology, people and products
4. Continous impotents - the ongoing desire to be better at what they do

Dynamic Markets

Some markets stay relativly stable for a number of years, while others may be in a constant state of flux.
One key characteristic of a market is its size.
Opposite are some of the factors that contribute to this change.

COMPETITION

The level of competition in market can vary. It has an impact on the way businesses operate and the experience of customers.

Low Competition ⟷ High Competition

Businesses

Low Competition:
- Can dominate the market
- Can afford inefficiencies
- Set high prices
- Little incentive to increase

High Competition:
- Incentive to innovate and get better
- Focus to improve and get better
- Competitive pricing

Customers

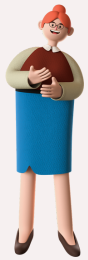
Low Competition:
- Limited choice
- High prices
- Poor service

High Competition:
- Lots of choice
- Good value for money
- Exciting new peoduct development

The market research process

Define problem/question → Develop market research plan → Collect data → Analyse data → Interpret and report findings

Primary Market Research



This is data collected first hand:

- Specific to the needs of the business
- More up to date and reliable
- better for two way communication and follow uo questions
- Often better if you want to collect qualitative data

- More time consuming and therefore more costly
- Difficult to conduct a large sample size

MARKET RESEARCH

Marketing research is the first stage of the marketing process and invloves gathering and analysing qualitative and quantitative market data. Market research is the key indicator of customr needs which drives decision making across all business functions not just marketing.

Secondary Market Research

this is research that already exists, conducted by another organisation, it is:

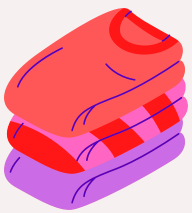
- Easily accessible and a good starting point
- Fast and less time consuming
- Often better if you want to collect quantitavive data

- Some data can be free but detailed reports can be expensive to purchase
- It is not always up to date or specifically tailored to the businesses needs

Product Vs Market Orientation

Product Orientated

Focused on production efficiencies and the product itself (product features, profit margins and efficiency)



Market orientated

Focused on consumer needs.

Understanding customers and developing products that meet their needs (customer attitudes, characteristics and how the product is used)

THE LIMITATIONS OF MARKET RESEARCH

There are a number of tools that a business might adopt to collect and analyse market research.
However, the quality of the market research and the process of analysis can often be flawed

Limitations

Market Research can have several limitations:

- It is often biased
- A small sample limites the reliability of the research
- Causality can be hard to identify
- Collecting it is very time-consuming

Uses of Market Research

- Product development
- Budgeting
- Production forecast
- Cash-flow forecasting
- Workforce forecast
- Developing marketing activities- such as promotional campaigns
- Sales forecasting

ICT and Market research

ICTcan support the collection and analysis of amrket research data in a number of ways. Specific IT tools might include

- Collecting data through websites
- Social media
- Analysing information in databases

Sampling

Sampling involves selecting a representative group of people from the target population

- It is quicker and easier than trying to collect research from everyone- this is often immposible
- the bigger the sample size the more representative it will be

Correlations

Correlation helps businesses to understand the relationship between two factors. If a business can understand the key factors determining demand for its products, then it can manipulatethese to achieve bigger sales

The value of market segmentation

Market segmentation allows businesses to:

- Diferantiate itself from its competitors
- Develop and build its brand
- Identify and satisfy the needs of a specific group of customers
- Reach its cusromers with relevant marketing activities such as advertising
- Focus the business activities
- Build loyalty towards its brand and products

Market Maps

This is a technique used to understand how products/ businesses are veiwed relative to competitors, based on two reavent chaaracteroistics

- It helps businesses to decide whether to set up in a market, asking teh question is there a ga/ opportunity?
- It is a useful process for comparing similarities and differences betweeen businesses- market positioning
- It helps a business gain a better undertanding of its competition
- It is useful as a market research tool too gain an undertanding of customer perceptions

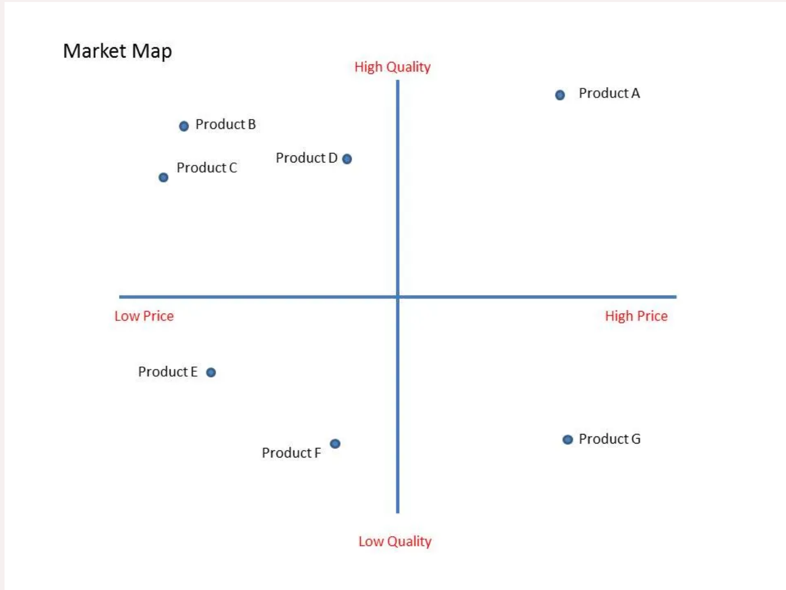
A limitation may be that it only cosiders two main variables - markets and customer perceptions are often very complex

Positioning

Factors a business may consider when positioning a product or the buisness are:

1. The attributes of the product - such as features and quality
2. The origin of the product/business -such as its heritage
3. The classification of the product or business- e.g. a five star hotel

Market Mapping



Market Positioning

A business will consider how it positions itself within a makret in relation to its competitors. The process of positioning involbes deciding on the nature and characteristics of the products and services its sells and who ist target market is. One tool a business can use to carry out this process is a market map

Head to Head Competition

There dosent always have to be a gap in the market for a business to be succesful. Businessees can target the same customers as other businessses and be succesful if there is enough demand in the market or they are able to meet custoker needs better than their comopetitors, for example by offering more choice or better customer service

Limitations of Market Mapping

Market Maps are based on positioning against two variables. However, perceptions of customers, other businesses and socuety are often very complex and may not fit into this model. Furthermore, a market map is a planning tool and different stakeholders may have a different opinion of where the bsuiness is or should be positioned.

Differentiation

Product Differentiation is the process of making a product different from a competitors products. Differentiation may also be applied to a businesses brand. Differeatioatuon may be achieved through:

- Developing unique bramd characteristics
- creating unique product features
- Providing a unique/better customer experience
- Building good relationships with customers
- Offering a proce that undercuts the competition

Differentiation is closeley linked to the concept of a unique sellimg point. A USP is something taht sets the business apart and makes it distinguishable from any other businesses

Differentiation vs head to head competition

The process of differentiation means that a business does not need to position itself alongside rival firms. Therefore, they do not need to compete head on.

Competitive advantage and differentiation

A competitive advantage is a set of unique features of a business and its products that are perceived by customers as significant and superior to the competition. Businesses that have a competitve advantage will often differantiate their products from those of their competitors

Competittive advantage

Compettitive advantage exsists where a business creates value for its customers that is greater than the costs of supplying those benefis and that is greater than that offered by competitors. A sustainable competitive advantage can only be achieved through three areas of practive

1. Innovation - The ability tocreate new and unique processes and products
2. Architecture - teh relationships within a business that creates synergy
3. Reputation - Brand values

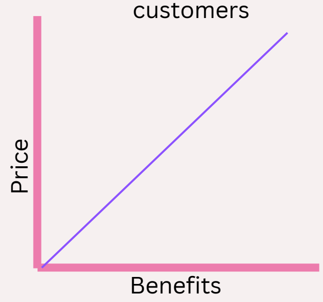
Different ways of adding value

- Branding(developing a strong brand identity through promotion
- Good customer service
- Good Speed of service and response time to customers
- Packaging
- Frequent buyer offers (rewards for repeat purchase)
- Customisation
- Better design/features

Relationship to Profit

Adding value is closely linked to the concept of profit. Te more value a business can add, the higher the price and greater the profit margin. The challeneg for any business is adding value without too many additional costs

A business will be competitive where the value it adds to its products and services matches the price that it charges customers



Adding Value

Adding Value is the basic purpose of all businesses. A business will start with raw materials, take them through a process and then sell them to customers at a price greater than the combined cost of the raw materials and the process involved in the transformation.. Businesses will look to find new ways to add value to what they do.

The more value a business can add to its products the more competitive it is

Labour (people)
Capital (Finance)
Land (Natural Resources and Materials)

Input →

Transformational Process (adds value)

Output →

Goods and Services

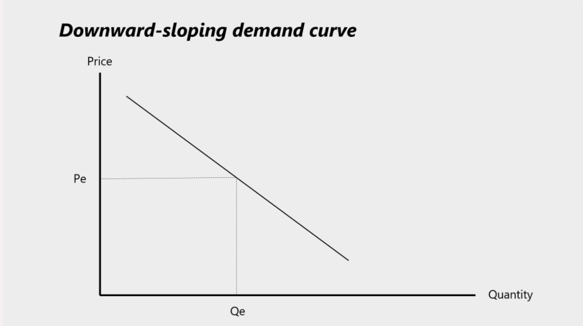
DEMAND

Demand is the amount of a products that consumers are willing and able to purchase at a given price. Demand is important because it affects the attractiveness of a market and the potential for sales

Demand Curves

Demand can be shown on a graph. Y = price, X = quantity demanded. The demand curve always slopes downward beacsue the quanitity demanded is lower at a higher price. In most markets, as price falls the quantity demanded will increase. A change in price up will result in the level of demand falling

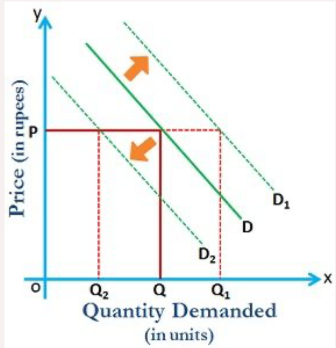
the lines on demand and supply graphs are reffered to as curves even though they are drawn as straiht lines for simplicity



Drawing Shifts

Any of the factors affecting demand can create a shift in demand. For Example, successful advertising will shift the demand curve to the right. Demand is higher at any given price point.

The diagram shows how to draw an increase of decrease in the demand curve



Factors affecting demand

Price of Substitute Products -if a supermarket own-brand version of a branded item has a lower price this will affect demand of the branded item

Seasonality- this is demand for goods at different times of the year e.g. Christmas goods

Price of complementary products- sometimes products are bought together, such as burgers and tomato ketchup. If the price of burgers goes down then more ketchup might be bought

Changes in consumer incomes (normal goods)- if salaries go up then the demand for eating out or holidays will go up.

External Shocks - These are factors beyond the control of the business such as arrival of a competitor in the market, government legislation, economic, climate, social factors (covid, cost of living crisis)

Demographics- the age of a population or its make up (more women then men) will influence the demand for certain goods

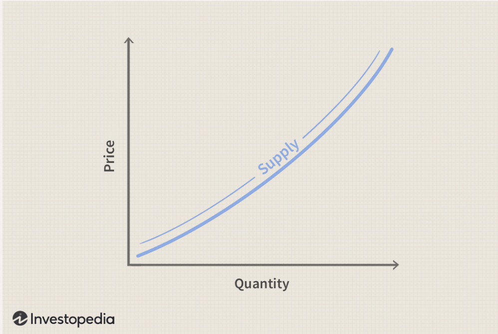
Advertising and branding - if there is a succesful campaign the demand for some items might go up

Fashion, tastes and preferences- these will increase sales in certain items, such as types of clothing, cars and types of food.

Supply Curves

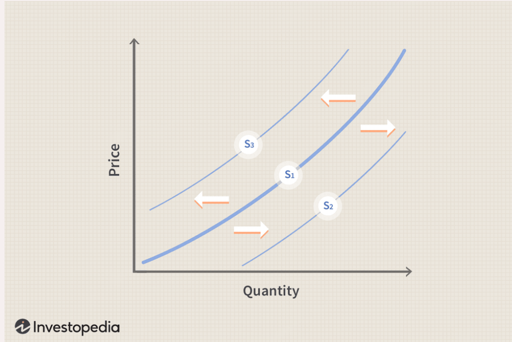
As with demand, supply can be shown on a graph. The supply curve always slopes upwards because the quantity supplied will increase as the price rises. In most markets a change in price will alter the point of supply along the curve

In some case, supply will not change no matter what the price is. For example, the number of seats at a concert will not change.



Drawing shifts

Any of the factors affecting supply can create a shift in supply:higher prices mean profit per item increases, so the incentive to firms to supply increases, therefore supply shiftd to the right



SUPPLY

Supply is the amount of a product that suppliers will offer to the market at a given price. The higher the price of a particular good or service the more that will be offered(supplied) to the market. Supply is directly influenced by how accesible and profitable a maket is for suppliers (businesses)

Factors affecting supply

Changes in the costs of production, such as wages raw materials, energy, rent and machinery(left or right)

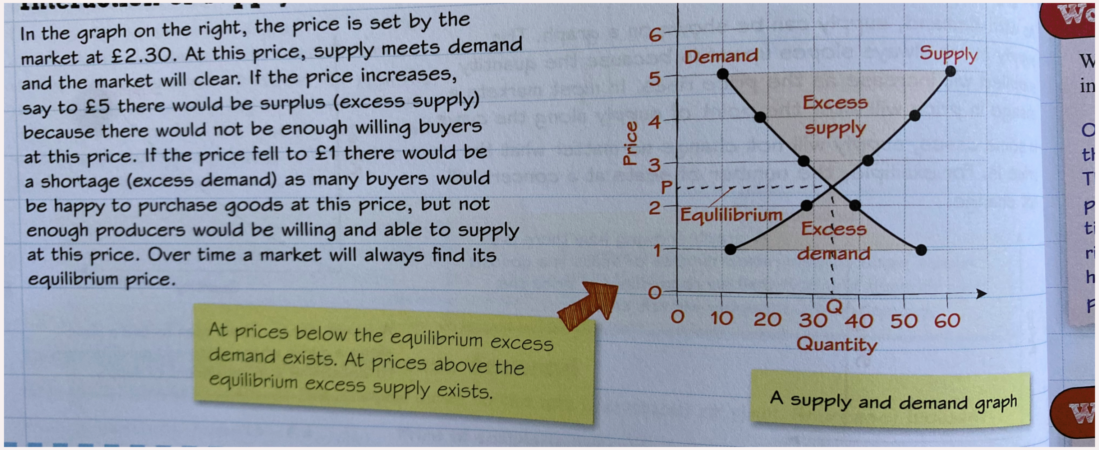
Introduction of new technology making production processes more efficient (right)

Indirect taxes (left or right)

External shocks such as events/wars (left) and weather effects (left or right)

Government subsidies (support for suppliers) (right)

Interaction of supply and demand


In the graph on the right, the price is set by the market at £2.30. At this price, supply meets demand and the market will clear. If the price increases, say to £5 there would be surplus (excess supply) because there would not be enough willing buyers at this price. If the price fell to £1 there would be a shortage (excess demand) as many buyers would be happy to purchase goods at this price, but not enough producers would be willing and able to supply at this price. Over time a market will always find its equilibrium price.

At prices below the equilibrium excess demand exists. At prices above the equilibrium excess supply exists.

A supply and demand graph

MARKETS

The price in a market is set where the wishes of the consumers are matched exactly with those of the producers. Thisis known as the equilibrium (or market clearing price) and is where supply and demand meet

Changes in Demand

If demand increases then prices will rise.This is because producers will react by putting up their prices. The opposite will happen if there is a fall in demand.

Changes in Supply

If supply increases then prices will fall. This is because there will be excess supply and producers will lower their price in order to sell all of their goods. The opposite will happen if there is a fall in supply

Price elasticity of demand

Price elasticity of demand is the responsiveness of quantity demanded to a change in price.

The impact of PED

For some goods a price change will result in a larger percentage change in the quantity demanded and for others a smaller percentage in the quantity demanded. A steep demand curve represents a relativly price inelastic product. A price elastic product will have a flat demand curve

Calculating PED

PED = Percentage change in quantity demanded/ Percentage change in price

Above 1 demand is price elastic and below 1 demand is price inelastic

Ignore the negative when calculating PED. Just use the decimal number. A chnage in pricer a price inelastic product will have a smaller percentage change in the quantity demanded

>1	1	0
High price elastic	Price elastic	Price inelastic

Interpreting PED

	Price elastic	Price inelastic
Price increase	Leads to bigger % decrease in quantity demanded. Revenues fall	Lead to smaller % decrease in quantity demanded. Revenues Rise.
Price decrease	Leads to a bigger % increase in quantity demanded. Revenues rise	Leads to a smaller % increase in quantity demanded. Revenues fall

Impact of decision making

Where demand is price inelastic a business may be able to raise a price to increase revenue because there will be a smaller percentage change in thw quantity demanded than the percwentage change in revenue per unit

Where a product is price elastic a business will have to think about any changes I =t makes to its pricing strategy. Lowering prices could significantly icrease quantity demanded therefore boosting slaes revenue as long as conpetitors dont react

Factors influencing PED

These include:

- Number of substitutes/ competitors
- Relative effort/costs of switching to another product
- Extent to which the product is considered a neccesity
- percieved value of the brand
- Time- the PED for a product will tend to fall over time as consumersfind substitutes
- Percentage of income spent on the product

Elastic and inelastic demand

The amount of income that consumers have to spend is a key factor influencing the demand for a product. YED measures the responsiveness of demand to a change in incomes.

Many goods have income elastic demand. This means that a percentage change in incomes would lead to a proportionate or greater percentage change in the quantity demaned. Goods that have income elatic demand include, cars TVs holidays and clothing

Some products have inelastic quantity of demand. This is where a percentage change in income will have a proportionaly lower change in the quantity demanded. These products might be considered necessities, such as some food types.

Most goods are normal goods. This is where an increase in incomes lead to and increase in quantity demanded. Normal goods have a positive income elasticiy of demand

For inferior goods, an increase in incomes will lead to a fall in demand. The reverse is also true - a decrease in incomes will lead to an increase in demand. Inferor goods have a negative income elasticity of demand.

INCOME ELASTICITY OF DEMAND

Income elasticity of demand is the responsiveness of demand to a change in incomes.

Calculating income elasticity of demand

YED = percentage change in quantity demanded / percentage chnage in incomes

>1 1 0

For income elasticity greater than than 1, demand is income elastic. For income elasticity less than 1, demand is inelastic

Impact on decision making

Businesses that sell goods with high income elasticity will be affected by the cyclical nature of the economy. In reccesion, demand will fall significantly for products that have a high income elasticity of demand.

Businesses selling goods that have income inelastic demand are likley to find demand, and therefore sales, more stable during economic shifts.

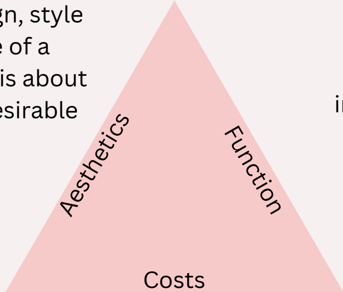
Factors influencing income elasticity of demand

These include:

- whether the product is considered a necessity
- Whether the product is considered a luxury
- the price relative to people incomes (%)

The design mix

Refers to the design, style and appereance of a product. Aethetics is about making products desirable



Refers to the benefits that a product or service provides. it includes how well a product meets a need or solves the problemfro which it was intended

Encapsulates all production costs of a product. Specifically the cost per unit

Designing products to meet social trends

Modern society is far more environmentally concious than ever before and demands products that are sustainable with a limited impact on the environment. Businesses are more likley to succeed when developing products that address the issues of resource depletion.

These could include:

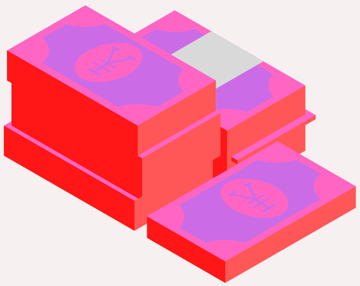
- Products designed for waste minimisation
- Products designed for re-use
- products designed to be recycled
- Products sourced ethically

PRODUCT/SERVICE DESIGN

Businesses must consider the whole product during development, along with the 3 factors in which make up the design mix. All products must have a balance of aesthetics , function and costs. Changing one aspect could dramatically effect the other two designs

Challenges of product design

Product design involves carefully balancing the three elements of the design mix. Adapting any one of these features can have a detrimental impact on the other two



The benefits of adapting designs to changes in society

1. Reducing waste helps businesses cut costs
2. Reflecting social trends through product design means they are more likley to sell large quantities
3. Social trends can be used as a USP to differentiate products and services
4. Attending to social trends means businesses are more likley to bee seen as being socially responsible

Above the line

Above the line promotion involves any form of advertisng through the media, such as

- Television
- Radio
- Posters/billboards
- internet
- direct marketing
- newspapers
- cinema

Below the line

Below the line promotion includes all the other forms of promotion that are not advertising. These include

- Sales promotions (free gifts)
- Public relations
- Merchandising and packaging
- Direct selling/personal selling
- exhibitions and trade fairs

The message- the purpose of an advert

Advertising can be used t ogive a different type of message. The message may depend on the nature of the product or stage of the product life cycle. An Advert may be used to:

- Inform customers
- Persuade customers
- Remind customers
- Reassure customers

PROMOTION

Promotion is the key method a business will use to communicate with its customers and potential customers. Successful promotion will create awareness, understanding and a desire for the product. There are two categories of promotion: abouve the line and below the line.

Influences on promotion

TARGET AUDIENCE - a business must choose the right methond and channel to reach the right people

PROMOTION BUDGET- the promotion budget will determine which methods are available and the geographical reach of the campaign

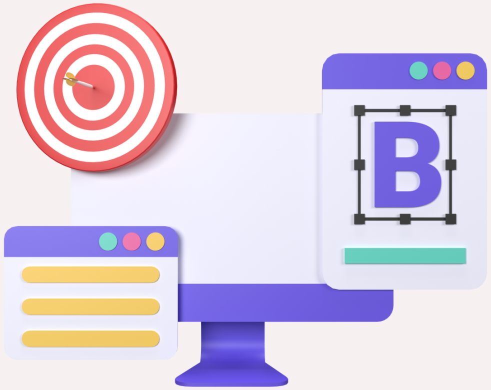
TECHNOLOGY- technology can help a business narrow downs its promotion so that it only reaches the right people. Subscription services also allow a business to target customers with personal messages and relevant information

MESSAGE- a public apology might be posted on a companies website but a sneak peek at a new product line might be shared via twitter. Sponsoring sport might encourage a healthy lifestyle

Ways to build a brand

Developing a brand is about developing reputation and characteristics. Even without brand characteristics, a well known brand gives consumers more trust. Brands can be developed through

- exploiting a USP
- advertising
- sponsership
- Using social media



Social trends

Businesses should maximise social trends to build their brands:

- Social media - attracting followers to social media sites is a key focus of marketing spending for many businesses
- Viral Marketing- the growth of social media and the sharing of images and videos isa huge opportunity for businesses to build brand awareness
- Emotional branding - businesses often associate theor rands with things that consumers have strong emotional connections to, for example, sports teams or good causes

BRANDING

A brand is more than simply a logo or slogan. Although customers will remember and associate a business with its logo, slogan and imagery, a brand also represents the characteristics and personality of a businesss. A strong brand can be achieved through investment in successful promotion.

Strong Brands

Adds value to the product

Makes a product recognisable

Allows a premium price to be charged

Brands can be traded

Builds trusts

Helps a business to position itself in the market relative to other competitors

Product might become the natural choice for the novice customer

Types of Brands

There are several types of brands. these are:

- Manufacturers brands
- own label brands
- Generic brands