Topic 1.2
Spotting a business opportunity
1.2 THEME 1 INVESTIGATING SMALL BUSINESS - CONCEPT MAP

How small business interacts with the wider world

- Technology and business
- Understanding external influences
- Business responses to external influences
- The economy and business
- Legislation and business

Three phases of development of a new small business

- Market research
- Competitive environment
- Business revenue, costs and profits
- Sources of business finance
- Business location
- Business plans

Spotted a business opportunity
Putting ideas in to practice
Making the business effective

- Customer needs
- Market segmentation
- Business aims and objectives
- Cash and cash flow
- Options for start-up or small businesses
- Marketing mix

Why and how small businesses start

- Dynamic nature of business
- Enterprise and entrepreneurship
- Role of business enterprise
- Risk and reward
Focus on these areas as a minimum

Exam Sections

Section A
In this section you will be tested on your knowledge of business. 35 marks are available and the highest mark on a question is:

“Discuss” 6 marks

Section B
In this section you will be tested on your knowledge of business applied to a case study. 30 marks are available and the highest marks on the question is:

“Analyse” 6 marks
“Justify” 9 marks

Section C
In this section you will be tested on your knowledge of business applied to a case study. 25 marks are available and the highest marks on the question is:

“Justify” 9 marks
“Evaluate” 12 marks

Answering questions

Command words are the part of the question which tell you what to do

<table>
<thead>
<tr>
<th>Command Word</th>
<th>What to do</th>
</tr>
</thead>
<tbody>
<tr>
<td>State or Give</td>
<td>These ask for a statement – you don’t need to back up with evidence.</td>
</tr>
<tr>
<td>Define</td>
<td>You need to write down what term means.</td>
</tr>
<tr>
<td>Identify</td>
<td>You need to interpret data shown on a graph or in a table to get your answer.</td>
</tr>
<tr>
<td>Calculate</td>
<td>Some questions ask for a bit of maths. Remember to show your working.</td>
</tr>
<tr>
<td>Complete</td>
<td>You need to fill in the missing parts of some information you’ve been given (e.g. complete a table).</td>
</tr>
<tr>
<td>Outline</td>
<td>You need to make two main points about a business issue and link them together.</td>
</tr>
<tr>
<td>Explain</td>
<td>You need to give reasons for things. So take a business issue, show how it impacts on other areas of business by giving reasons why.</td>
</tr>
<tr>
<td>Discuss</td>
<td>This is a longer version of an explain question, where you describe the business issue or issues and then explain the impact as per the Explain command word</td>
</tr>
<tr>
<td>Analyse</td>
<td>This means ‘examine in detail’. You show describe and explain the main features of the ‘thing’ you’re analysing. The explain how the features of the ‘thing’ collectively impact on the business</td>
</tr>
<tr>
<td>Justify</td>
<td>You’ll be given some information about a business and asked to recommend whether the business should do something or chose between two options for what the business should do. Each option needs to be Analysed</td>
</tr>
<tr>
<td>Evaluate</td>
<td>You should discuss both sides of a business issue. Each side needs analysing. You should finish with a conclusion which gives an overall judgement</td>
</tr>
</tbody>
</table>
Spotting a business opportunity

- Customer needs
- Market segmentation
- Market research
- Competitive environment
WHAT ARE CUSTOMER NEEDS?

Customer needs are the specific wants or needs buyers have when purchasing a product.
Customer needs include:
- Price
- Quality
- Choice
- Convenience
- Service
Businesses must understand what a customer wants when they buy their products.

MEETING CUSTOMER NEEDS

Different customers don’t all want the same things from a business.
Businesses produce goods and services that will satisfy the different wants of customers, e.g. Netflix has a variety of films and TV programmes available. Subscribers can choose different genres and age ranges to suit them.
Due to changes in fashion, taste and culture, customers’ needs are likely to change over time.
Successful businesses anticipate their customers’ needs in advance to ensure they can stay ahead of the competition.
Businesses need to stay close to their customers to keep up to date with their needs.

ADAPT TO MEET CUSTOMER NEEDS

It’s important businesses adapt so that:
- They can target lots of different customers
- The same product can satisfy different customer needs
- A business does not lose customers to competitors
- The business can stay current and on trend.
### HOW PRICE AND QUALITY LINKED

Customers will try and get the best quality for the most reasonable price, e.g. a customer is willing to pay more for a burger from Gourmet Burger Kitchen than McDonalds because they know that Gourmet Burger Kitchen is a more upmarket burger chain that uses better ingredients.

Businesses need to ensure they price their goods or services at the right level, according to perceived quality.

### WHY MEETING CUSTOMER NEEDS IS IMPORTANT

Businesses can only survive if they have customers, so they have to focus on what they want.

A business must have enough customers willing to pay a high enough price to cover costs and make a profit.

Satisfied customers lead to more sales and revenue for the business. Other rewards of satisfied customers include: profit, good customer reviews, word of mouth, repeat purchases, and loyal customers.

### QUICK TEST

1. Name 3 different customer needs.
2. Why must businesses provide choice to customers?
3. Why would a customer pay more for a flight on British Airways than they would for an easyJet flight?
4. Explain why meeting customer needs is so important to a business.
WHAT IS MARKET RESEARCH?
Market research is the process of collecting information about what consumers want, market trends and competitors. For a small start-up business, market research will be focused on finding out if there is enough demand to make the business idea successful. Market research helps entrepreneurs identify and understand customer needs. It can be used to:
- Identify a gap in the market
- Inform business decisions
- Reduce the risk of starting a business

PRIMARY RESEARCH
Primary research is collecting new information that meets specific needs of a business.
- The information will not have been collected before
- Examples include survey, questionnaire, focus group, observation.
Advantages
- Can ask questions they need answers to
- Information is current
- Information won’t have been seen by competitors
Disadvantages
- Can be expensive
- Can be time-consuming
- Results may be inaccurate

SECONDARY RESEARCH
Secondary research involves using data that already exists, or data that has already been gathered by someone else.
- Examples include internet, market reports, government reports.
Advantages
- Data is easy to find
- Cheap or free to obtain
- Good overview of the market
Disadvantages
- May be for different purpose so inaccurate
- Can be out of date
- May not be specific to the business
SOCIAL MEDIA AND MARKET RESEARCH DATA

Social media can be used by entrepreneurs to collect research via feedback from comments, reviews, surveys or online focus groups about their business or to find out how customers feel about competitors. Current trends can be tracked using hashtags and by following popular posts. The greater the activity on social media, the more likely it is that a business will receive responses to the market research. Collecting data can be quick and cheap. The data can be collected in real time so is up to date. Businesses can respond to their customers immediately. The data collected can be used to inform business decisions.

QUALITATIVE DATA AND QUANTITATIVE DATA

Quantitative data is numerical and can be measured easily. Closed questions from a questionnaire can be put into a graph or chart or table. Qualitative data is opinions, judgements and feelings and so cannot be put into numerical form. This data can be collected during focus groups, in which open ended questions are asked to gain in-depth answers. Both types of data should be used together to inform decision making. And both types of data can be derived from both primary and secondary market research.

THE USE OF DATA

Must determine how reliable research is before making decisions based upon it. Market research can be misleading if the right information is not collected from the right people. Market research may be unreliable as market research questions can be worded in a way that lead people to a certain answer. Respondents may not give true answers, and the sample of people used for the research may not be large enough to determine how the entire market feels. Some businesses have been successful without conducting any market research.
1. Define market research.
2. What are the two types of market research?
3. What is the name given to data that can be interpreted in a numerical way?
WHAT IS MARKET SEGMENTATION

Market segmentation involves breaking down a market into smaller groups called segments. Each of the different groups will contain people that have similar characteristics and have similar wants and needs. Information from market research will usually determine which market segment to target goods or services at. A business can then focus on how best to sell to that target market and meet the customer needs of that group.

HOW ARE MARKETS SEGMENTED?

Location
• Grouping customers based on where they live.

Demographic
• Grouping customers based on statistical data relating to the population, e.g. residential status – home owner or renter

Lifestyle
• Grouping customers on how they live their lives and the choices they make.

Income
• Grouping customers based on how much they earn, the job they do or their social class

Age
• Grouping customers according to their age
MARKET MAPPING

When a business has decided on a market segment to target, they will need to decide what is important to that market and where to place the product within this market. A diagram called a market map can be used.

Market mapping is used by businesses to identify where a product will be placed in a market compared to other similar products in the same market. A diagram is drawn up with two axis and each axis represents a feature of the market. These features are based on the needs of the target market.

These features can be:
- High price – low price
- High quality – low quality
- Large range of services – small range of services
- Very crunchy – smooth
- More dense – less dense see example

Goods and services form different businesses are placed on the map. Products can be differentiated based on the features to make a businesses product stand out. A business can look for gaps in the market map to identify possible business opportunities. Competitors can be identified and the businesses can look for ways to improve what they are offering.

A business must take caution when identifying gaps in the market. The gap may be due to there being no market available. For example customers will not buy a product that is high in price and low in quality.

QUICK TEST

1. What does market segmentation mean?
2. Name three ways a market can be segmented.
3. How many features are used to produce a market map?
4. What can a market map identify for a business owner?
COMETITIVE ENVIRONMENT

Small start-up businesses must be aware of and investigate other businesses offering similar goods and services. Competition occurs when separate businesses provide goods and services to the same group of customers. A competitive environment is a market where there are many businesses selling similar goods and services. Businesses operating in competitive environments need to find ways to make their goods and services different from the competition; this is called differentiation. To investigate the strengths and weaknesses of potential competition, a business will look at different criteria.

HOW DO BUSINESSES COMPETE?

Price
- Offer lower prices to attract customers
- Price lowering may result in more sales but will increase costs for the business as they have to produce more to meet demand. If they don’t make enough extra sales their revenue may be less than before and thus profits may be lower.
- Reducing prices may encourage other businesses to lower their prices creating a price war. If prices are too low customers associate the product with poor quality.

Quality
- A high quality product can attract consumers that want a good quality product, and are also willing to pay a higher price
- Using better quality raw materials or ingredients or offering additional customer support will increase costs for the business.

Location
- A business may have a superior location over another business – easier to access, and more convenient – leading to higher sales
- A factory may have good transport links for suppliers and distribution
- An online business may have a more user-friendly website
- A business may not be able to change location but can instead focus on offering more to customers.

Product Range
- A large range gives consumers more choice and meet more customer needs
- A business can specialise in a specific product – this will attract consumers who want a more dedicated service

Customer Service
- Good customer service can help to secure repeat custom
- Satisfied customers leave good reviews and word-of-mouth recommendations
- Training staff in good customer service can increase training costs
COMPETITION AND DECISION MAKING

Operating in a competitive environment is more challenging for a small start-up business. A small business will need to focus on differentiating their product rather than matching its larger competitors.
Market research is key here to stay up-to-date with the actions of competitors.
Once a business can identify potential opportunities to better meet customer needs, they can improve on what they have to offer.
A business can gain a competitive advantage by:
- Buying cheaper raw materials to make cost savings
- Offering exceptional customer service
- Providing excellent quality
- Offering promotions and loyalty discounts

SUMMARY POINT

QUICK TEST

1. Define competitive environment
2. Name one disadvantage of competing on price
3. How does competition affect a business’s decision making?
The questions below are from the previous topic and designed as retrieval practice. See how many you can answer. Check your answers by looking back into the previous revision booklet.

<table>
<thead>
<tr>
<th>Question</th>
<th>Marks</th>
<th>Question</th>
<th>Marks</th>
<th>Question</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give an example of a product becoming outdated</td>
<td>1 Mark</td>
<td>Explain how the rise in web technology and the use of smartphones benefitted businesses.</td>
<td>3 Marks</td>
<td>What does ‘dynamic business’ mean?</td>
<td>1 Mark</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Explain how a business can adapt an existing business idea.</td>
<td>3 Marks</td>
</tr>
<tr>
<td>Explain what the potential rewards are for setting up a business.</td>
<td>3 Marks</td>
<td>Why are sole traders and partnerships the riskiest start-up options?</td>
<td>2 Marks</td>
<td>What factors can an entrepreneur use to measure their business success?</td>
<td>3 Marks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>How can an entrepreneur avoid risks when starting up a new business?</td>
<td>2 Marks</td>
</tr>
<tr>
<td>Explain with examples, the different between a good and a service.</td>
<td>2 marks</td>
<td>What does the term ‘unique selling point’ mean?</td>
<td>1 Mark</td>
<td>Explain why is it important for a business to add value to its goods and services?</td>
<td>3 Marks</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>Explain how design can help a business to add value.</td>
<td>3 Marks</td>
</tr>
</tbody>
</table>
1.2.1 Customer needs

1 Explain one benefit to a small business of understanding customer needs. (3)

Zoe Sugg, known to her fans as Zoella, is an entrepreneur and a star of YouTube. She has enjoyed success with her fashion and lifestyle vlog (video log) and has become a celebrity as well as an entrepreneur. After starting her lifestyle blog, ‘Zoella’, in 2009, she soon had thousands of followers. Zoe extended the blog to a YouTube channel and by 2015 had 7.5 million subscribers.

In September 2014 Zoe launched her own brand bath and beauty range, called Zoella Beauty. The brand logo is shown in Figure 2. Zoella Beauty products are stocked by major retailers, including Superdrug and Boots. The business also uses e-commerce to sell its product range.

In 2014 Zoella Beauty earned revenue of £400 000. However, the competitive environment for beauty products aimed at younger females is becoming more crowded. Rivals include retailers such as Lush.

2 Outline one way that Zoella Beauty meets customer needs. (2)
1.2.2 Market research

3 Explain one disadvantage to a small business of using qualitative data for market research.

(3)

5 Which two of the following are examples of secondary market research?

Select two answers.

A Focus group  
B Internet  
C Market report  
D Observation  
E Survey
Last Course Patisserie Ltd is a small private limited company based in Devon which produces hand-made desserts and puddings. The business was established in 1986. Its owners previously worked in the food industry but felt they could offer better value for money to customers. All of the desserts are made fresh to order which has provided Last Course Patisserie with a reputation for being flexible when meeting customer needs. Getting the best ingredients for the desserts is a vital part of the business. Last Course Patisserie found excellent suppliers of free range eggs and dairy products close to its business location. This means all ingredients could be delivered quickly when needed. Last Course Patisserie has recently employed a new head chef from Switzerland who has introduced a new range of products to the menu. This has proved to be very popular with customers and the business now struggles to keep up with demand. Last Course Patisserie is receiving increased orders for desserts but, due to the size of its business premises, struggles to meet this increase in demand. The owners have decided that it is the right time for Last Course Patisserie to expand and possibly relocate to new premises.

(Source adapted from: http://devondesserts.co.uk/; photo: © 2009-2018. Last Course Patisserie Ltd.)

The new head chef carried out secondary market research to identify information about the food market.

4 State one benefit to Last Course Patisserie of conducting secondary market research.
1.2.3 Market segmentation

6 Explain one way a small business could use market segmentation to target customers.

7 Explain one advantage to a small business of using market mapping.
On Your Bike is a family owned business that first opened in London in 1983. Its customers include children buying their first bikes and scooters, through to experienced enthusiasts in road cycling and mountain biking.

The business offers a wide range of bikes, many imported from abroad. These include high quality brands such as Brompton, Cannondale and Ridgeback. It also stocks a wide range of clothing and helmets including brands such as Endura and Altura.

On Your Bike has large workshop facilities in its shop where qualified mechanics maintain and repair all makes of bike. All mechanics go on regular training courses to ensure they keep their skills and knowledge up to date with the latest cycling technology. This allows On Your Bike to offer exceptional customer service and advice.

The cycling market has grown over recent years. Market research has shown that an increasing number of tourists like to rent bikes when on holiday. In response to this, On Your Bike operates one of the largest bike rental services in London. Bikes can be hired by the day or week with a choice including road and electric bikes. This is customer review from a comparison website:

![Customer Review](image)

8 State one market segment that On Your Bike has targeted.

(1)
1.2.4 The competitive environment

9 Discuss how the decision making of a small business may be affected by increased competition

(6)

11 Explain **one** disadvantage to a business of operating in a competitive environment.

(3)
Stand up paddleboarding is a sport which is similar to surfing but the riders use a paddle whilst standing on the board. Joe Thwaites opened Loco in 2012 as he spotted a gap in the market manufacturing stand up paddleboards (SUPs). Joe felt that he could compete using innovative designs and by changing the shape of the SUPs he made. He spent a few weeks in Fuerteventura, Spain, working with professional SUP riders where he developed designs for three Loco boards.

Since then Loco has surrounded itself with creative talent. This includes world class SUP shapers, graphic designers and team riders, who compete in competitions using its boards. Within months of its new SUPs becoming available, one of the team went on to win the British National Championship and represent Team GB in the World Championships.

Loco now sells an extensive range of SUPs, surf and kite boards throughout the UK and Europe and is ready to further extend its brand. Joe feels that the use of digital marketing using social media is vital in this growth. This combination of creative marketing and Joe’s active role in the business, by offering advice to customers, has provided him with a firm belief that Loco can compete against larger manufacturers.

(Source: adapted from https://ocosurfing.com/ and interview with owner 8/06/2018)

10 Evaluate the extent to which Loco will be able to compete with large manufacturers of SUPs. You should use the information provided as well as your knowledge of business. (12)
10 Evaluate the extent to which Loco will be able to compete with large manufacturers of SUPs. You should use the information provided as well as your knowledge of business.