

TOPIC 1.4 MAKING THE BUSINESS EFFECTIVE

START

1 **State** the meaning of the term USP.

2 **Explain** the importance to Jane of creating a business plan.

3 **Define** the term 'marketing mix'.

4 Using the data drop provided **calculate** the expected revenue for Jane in year 1.

14 Jane may consider opening her own shop if the business is successful and will look to buy premises. **Explain** the factors that would influence the location of Jane's business.

13 Jane considers that she is charging a premium price for her product. **Explain** what is meant by the term premium pricing and how is it possible for Jane to do this.

12 **Calculate** the increase in profit in year two based on your answer to question 11 - assume all other cost/pricing remains the same.

11 If Jane's forecasts are correct she expects that demand will increase by 15% in year 2. Using the data drop provided **calculate** the expected demand in her second year.

BUSINESS PROFILE

Memory Bears

Jane Cross decided to set up her new business venture having produced small teddy bears for friends and family as a hobby for many years. Jane's USP was that the handmade teddy bears were created out of memorable clothing to mark a specific event e.g. leaving school or the loss of a loved one. Jane planned to work from home and therefore would have very few overheads to set up and run her business.



Data Drop

Cost per teddy	£5.25
Selling Price per teddy	£10.50
Forecast demand – Year 1	300 teddy bears

10 Jane has decided that she will run her business as a sole trader. **Explain** the advantages and disadvantages to Jane of this decision.

9 Jane thinks her fixed costs will be £1,500. Using your answer to question 4 and the data drop provided **calculate** the profit/loss in Jane's first year.

5 Jane understands the importance of promotion to generate interest in her product. **Outline** two appropriate methods of promotion Jane could use to attract new customers.

6 **Explain** the meaning of the letters 'Ltd'.

7 Jane has had discussions with a small business advisor at her local bank and he has suggested that she should consider setting up as private limited company. Identify the advantage of this to Jane.

8 Jane is confused about the idea of unlimited liability. **Outline** the possible implications of this for Jane.



MAKING THE BUSINESS EFFECTIVE SUGGESTED ANSWERS

1 Unique Selling Point.

2 A business plan is a document that sets out the business idea and shows how it is to be financed. This will be important to Jane in the future if she needs to persuade an outside investor or the bank to provide financial support.

3 The marketing mix consists of the 4 P's – Price, Product, Promotion and Place.

4 Revenue = Selling Price x Quantity =
 $£10.50 \times 300 = £3,150$

14 Proximity to market – if Jane wants customers to pass her shop frequently she will need to look for a busy high street or town centre location to gain maximum footfall.

Proximity to competitors – as Jane has a strong USP, this may not be too important however she needs to think about the other businesses that she locates next/near to.

Proximity to labour – Unlikely to be an issue as Jane works on her own.

Proximity to suppliers – again Jane is unlikely to need large bulk order deliveries and therefore transport costs are likely to be a minimum for her.

As a lot of Jane's business will still come from mail order and the internet – location becomes less important to her and it is likely that cost will be the driving factor.

13 A premium price is when a business is in a position to charge a higher price than possible alternative or substitute products due to the brand name or unique features of the product. Jane is producing 'hand made' bears which allows her to charge more than would be the case for mass produced teddy bears – she has a strong USP.

12 $TR = £10.50 \times 345 = £3622.50$
 $TC = 1,500 + (5.25 \times 345) = £3311.25$
 $Profit = 3622.50 - 3311.25 = £311.25$

11 300 teddy bears forecast in year 1
 15% of 300 = 45
 Forecast demand for year 2 = 345 teddy bears.

TIME TO REVIEW YOUR LEARNING... List three content points that you are confident with and three that require some attention.

Confident with	Requires attention
1	1
2	2
3	3

10 +ive - It is easy to set up. The business can be trading very quickly. Jane is her own boss and receives all of the profit generated.
 -ive – Unlimited liability, means that Jane's personal belongings could be at risk, may lack experience in running a business, limited finance available.

9 Total costs = FC + TVC = $£1,500 + (£5.25 \times 300) = 1,500 + 1,575 = £3,075$
 Profit/Loss = TR – TC
 $£3,150 - £3,075 = £75$ profit

5 Jane could use social media e.g. set up a Facebook page for her company to promote the products. This is a low cost option and would allow Jane to increase her coverage quickly through likes and shares. Jane could promote her business through leaflets posted in her local neighbourhood. This is a relatively inexpensive method and is something Jane could do herself.

6 Ltd would appear after a company name and means that it is a private limited company. This type of legal structure has limited liability.

7 A private limited company would have the letters Ltd after its name e.g. Memory Bears Ltd. It can give improved financial stability and does not cost a lot to set up – a fee of £150. Company status means that the owners (shareholders) have limited liability, this means they are not personally liable for any debts, which would help Jane to separate her own assets and belongings from those of the company. In the future Jane could raise more capital by issuing shares to other investors too.

8 Unlimited liability means that Jane and Memory Bears are inseparable in terms of legal status. Therefore Jane would be individually responsible for all of the debts if her business fails. This could risk things like her house and car if debts need to be recovered.