BTEC Level 1/2 Tech Award in Enterprise – Component 3

1. Enterprise: Word used to represent the ideas and initiative involved in starting a new business.

Promotion: Enterprises use promotion to communicate with their current and potential customers.

Main aims:

- Build positive associations with the enterprise
- Encourage customers to purchase products or services.

Features and benefits:

- Inform customers
- Remind customers
- Persuade customers.

Medium: refers to the type of advertising that a business choses to use e.g. TV, radio, magazines, etc.

2. Advertising: This entails an enterprise paying for space in the media to communicate with the public about its goods and services.

Purpose of advertising

- **To inform people:** an enterprise needs to make potential customers aware of a new product and its benefits.
- **To persuade people to make a purchase:** an enterprise might tell people about the benefits its products offer or their value for money.

Examples = moving image, print, ambient (e.g. on the sides of buses), digital and audio.

3. Sales promotion: This gives customers an incentive (often limited to a period of time) to buy an enterprise's products.

Purpose of sales promotion

- To entice people in
- To boost sales figures
- To attract first-time buyers
- To clear old stock.

5. Personal selling: Where a representative of an enterprise contacts potential customers directly. E.g. face-to-face, by telephone, via email or through video or web conferencing

Public relations: Involves promoting an enterprise, a brand, a product or service by placing information about it in the media without paying for the time or media space directly. E.g. exhibitions, sponsorship or press releases

6. Types of market

Business to consumer (B2C): Products or services that you buy for yourself. E.g. Clothes, toys, food, etc.

Business to business (B2B): When an enterprise sells goods or services to other enterprises. E.g. Kellogg's selling to Tesco and Sainsbury's.

7. Direct marketing: When an enterprise communicates with a customer directly to try and sell them a product or service. E.g. direct mail (junk mail), mail order catalogues, magazines and telemarketing.

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8. Market segmentation: Markets can be divided into different sections or market segments. Each segment is made up of customers who have similar characteristics and needs.

Benefits of segmenting the market

- Understand the characteristics and needs of their customers better
- Develop goods and services for a specific market segment
- Identify and choose a target market to specialise in
- Choose promotional strategies that are better suited to their target market.

9. Different market segments:

- **Demographic –** age, race, religion, gender, family size, ethnicity, income, education level and socio-economic group
- **Geographic –** location
- **Psychographic –** social class, attitudes, lifestyle and personal characteristics
- **Behavioural –** spending, consumption, usage, loyalty status and desired benefits.

10. Factors influencing the choice of promotional methods:

- **Size of enterprise –** large enterprises can use all promotional strategies, whereas small enterprises can't
- **Budgetary constraints –** the amount of money an enterprise has available to spend on promotion
- **Appropriateness for product/service -** choosing the best method for the product / service the enterprise is selling
- **Target market –** the enterprise must ensure their target market sees their promotion.

11. Financial documents: Enterprises need to fill in a range of documents when completing financial transactions. The purpose of these documents is to ensure that the business, its customers and its suppliers have an accurate record of all trading that has taken place.

Revenue: The income of an enterprise receives through various activities.

Revenue = Number of sales x price per unit

Fixed costs: The costs that have to be paid no matter how many products the business sells. E.g. rent on a factory.

Variable costs: The costs that are directly related to the number of items sold or produced. E.g. materials to manufacture products.

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12. Calculations

Profit = Total revenue – Total Costs

Gross profit = Turnover – Cost of sales

Net profit = Gross profit – Expenditure

13. Turnover: the total revenue an enterprise receives in a given financial period.

Capital: Money put in to start up or grow a business.

Cash: The money an enterprise actually has including cash in the till and money in the bank.

Profit: All revenue minus expenses over a period of time.

14. Asset: Something that an enterprise (or the owner of an enterprise) owns.

Fixed asset: Does not change in the short term or the owner of the enterprise will use to make money. E.g. A vehicle.

Current asset: An item that will change with every transaction. E.g. stock.

Liability: Something an enterprise owes.

Current liabilities: Money that must be paid back within a year. E.g. bank overdraft.

Long-term liabilities: Money that can be repaid over a longer period of time. E.g. loans.

15. Profitability: An enterprise's ability to turn revenue into profit.

Gross profit margin (%) = (Gross profit / Sales revenue) x 100

Net profit margin (%) = (Net profit / Sales revenue) x 100

Liquidity: The ability of an enterprise to pay its debts.

Current ratio = current assets / current liabilities

Liquid capital ratio = (current assets – inventories) / current liabilities

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16. Cash inflows: The amounts of money entering a business's bank account.
Cash outflows: The amounts of money leaving a business's bank account.

Cash flow statements: Actual cash inflows and outflows over a period of 12 months.
Cash flow forecasts: Cash flow statements that predict the cash inflows and outflows for an enterprise over a period of time.

Net cash flow: The difference between cash inflows and cash outflows over a particular time period.

Purpose of cash flow forecast:

- Identify the possible inflows
- Identify the possible outflows
- Work out the net cash flow.

17. Break-even: Occurs when an enterprise has made enough money through product sales to cover the cost of making or producing them. There is no profit and no loss.

BE = FC / (SP – VC per unit)

Benefits of break-even

Both the fixed and variable costs can be identified

- The owner knows how many items must be sold to make a profit.

Limitations of break-even

- Assumes for example all wages and rent will stay the same over all levels of output.
- Assumes that revenue and total costs are linear.

18. Internal sources of finance

Finance that comes from within an enterprise.

Retained profit: Profit that is not shared out to shareholders but is reinvested in the business.
Selling assets: Items owned by the business that are sold and the money is reinvested in the business.

External sources of finance

Finance that comes from outside of the enterprise.

Overdraft: Short-term loan facility.
Trade credit: Current assets, such as raw materials are purchased on credit and must be paid within 90 days.
Bank loan: Agreed amount of money that will be paid back over a period of time.