Knowledge Organiser – C3

COMPONENT 3 – Promotion and Finance

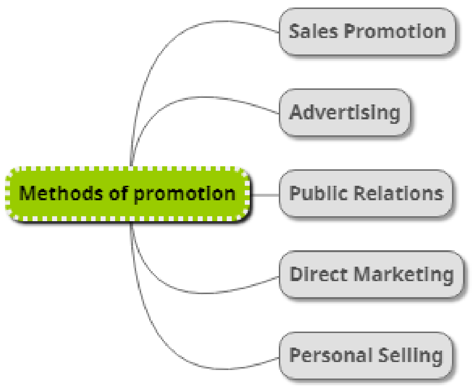
- **Learning Aim A** : Promotion

Elements of the Promotional Mix

A1

What is promotion?

Promotion is any method of communication that tries to encourage current and potential customers to buy products. Examples include adverts on television and money-off coupons in magazines



The purpose of promotion

Promotion can be used to:

- Create a positive image of the enterprise in the minds of current and potential customers
- Encourage current and potential customers to buy products

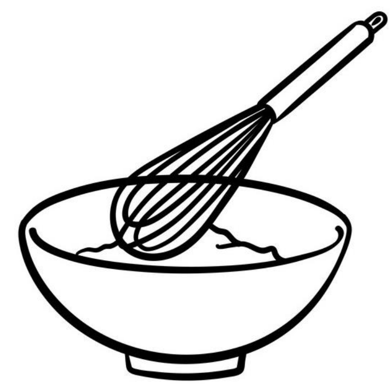
The use of advertising to persuade and inform. The two basic aspects of advertising are:

The message	What the communication needs to say about the product. ▪ Low price ▪ Quality ▪ Useful
The medium	How to get the message across by choosing the correct method of advertising to reach current and potential customers.

Promotional mix

There are many different methods of promotion used to get current and potential customers to buy products.

Enterprises will choose a combination of methods depending on their product and their suitability for the **size of the enterprise.** This is known as the promotional mix.



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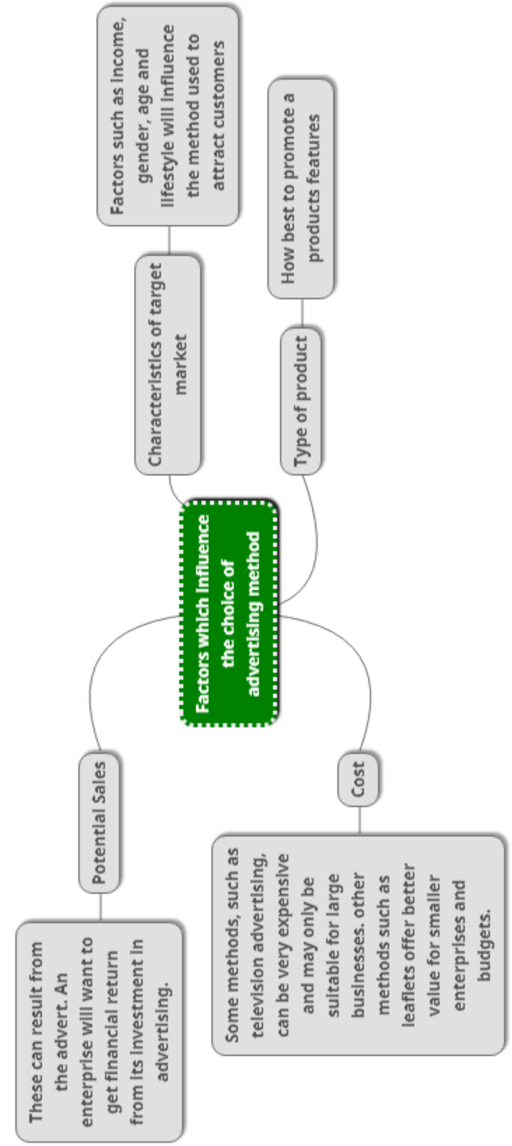
Elements of the Promotional Mix A1

Methods of advertising	Where advertising appears	Benefits
Moving image	▪ Television ▪ Cinemas ▪ Video sites ▪ Promotional DVDs	✓ Enables products with moving parts of a practical use to be seen in action and where/how they can be used
Print	▪ Local and national newspapers ▪ Magazines ▪ Leaflets ▪ Billboards	✓ Likely to be seen by large numbers of people, either in a specific location (local newspaper, billboards and leaflets) or over a wide geographical area (national newspapers and magazines).
Ambient	▪ Public places, such as bus stops and shopping centres	✓ Outdoor advertising aims to catch the attention of passers-by
Digital	▪ Company websites ▪ Social media [Pinterest, Instagram]	✓ Enables large and small businesses to connect with large numbers of people instantly
Audio	▪ Local and national radio	✓ Allows businesses to speak directly to their target market



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Elements of the Promotional Mix A1

Purpose of sales promotion

Enterprises use sales promotion for different reasons.

- To entice people into a shop where they may buy the product but other products also
- To boost sales figures
- To attract first time buyers
- To sell off older or less-fashionable goods to make space for new items
- To maintain customer loyalty

Method and features	Benefits/Limitations
Coupons Money-off voucher	may encourage purchases impacts profit if doesn't cover cost
Free sample Often given with coupon	potential repeat sales could impact profit
Competitions Prize draws	builds up marketing – thrill means more entrants impacts on profits
Money off discount Percentage reduction	encourages purchases profit affected if sales are low
Loyalty incentive Points towards other product or free items	long term customer relationships established impacts on profit if too few sales generated
Buy-One-Get-One-Free Free product on purchase of a full price product	encourages additional purchases profit impacted if sales are low

Personal selling

This is where a representative of an enterprise contacts potential customers directly. There are 4 main methods of personal selling:

1. **Face to face**
The sales person is in direct personal contact with the customer
2. **Telephone**
The sales person makes phone calls to the customer [usually from a call centre]
3. **Email**
The sales person communicates electronically with the customer.
4. **Video or Web conferencing**
The sales person communicates with the customer through a webcam.

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Elements of the Promotional Mix A1

An enterprises public image is an essential aspect of its success. A poor reputation may lead to reduced sales and a fall in profits. A positive image can maintain or even increase sales. Public relations (PR) involves building and maintaining an enterprises reputation – its image – through the media.

Public relations activities

- **Sponsorship** – Enterprises pay to have their name and brand displayed at major events such as sporting events
- **Exhibitions** – Commercial events where many similar enterprises exhibit their products or explain the services they offer
- **Press release** – A 150-200 word article produced by an enterprise to send to news agencies

Public relations

The purpose of public relations

PR may be used to promote products. Its purpose is to:

- Encourage positive views
- Encourage positive publicity through media
- Protect the brand image

Direct Marketing

Direct marketing is when an enterprise communicates with a customer directly to try to sell them something, either by phone or written communication

Telemarketing
Sales representatives make phone calls to inform customers of offers or new products (cold calling)

Email marketing and text messaging
Both may include links to the enterprises website.

Magazines
Enterprises own magazines including features and news of its latest products, or specialist magazines targeting a specific market

Mail order catalogues
Include photos and descriptions of products and information on how to order. Used by enterprises selling a wide range of products.

Direct mail [junk mail]
Leaflets, letters and brochures about new products. Suitable for a small enterprise such as a local restaurant or service.

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- **Learning Aim A** : Promotion

Targeting and segmenting the market

A2

Markets can be sorted into different sections, known as segments. Each segment is made up of consumers with shared characteristics, needs and interests. Enterprises segment their markets for various reasons.
Enterprises decide on the most suitable promotional mix based on whether they are targeting a business-to-business (B2B) market or a business-to-consumer (B2C) market.

B2B

An enterprise sells its goods to another enterprise. The goods may be raw materials, equipment, consumables (items that are used up and replaced) or items for resale. This type of market is known as Business to Business (B2B).

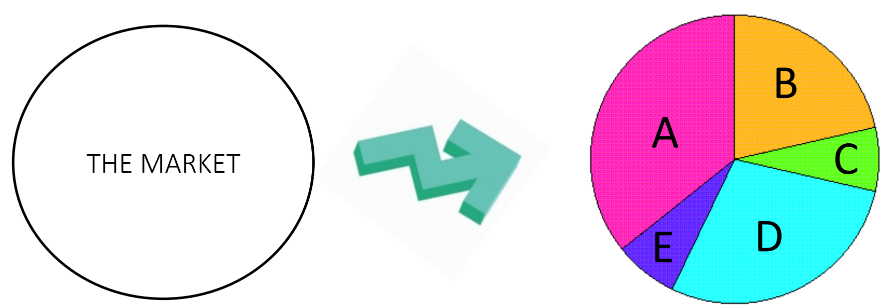
B2C

An enterprise sells its products – goods and services – directly to individuals for their own use. Such individuals are known as consumers, and the type of market is known as Business to Consumer (B2C).

Market segmentation
This is the process of breaking down a large market into much smaller groups of consumers.
Enterprises analyse the market, and divide it into segments, each containing consumers with similar characteristics.

Why enterprises segment the market:
- ✓ To better understand the characteristics, needs and interests of current and potential customers
- ✓ To develop products for a particular market segment
- ✓ To develop products that suit the needs of different market segments
- ✓ To choose promotional methods that are better suited to the target market.

Markets can be segmented in different ways. Enterprises may target one or more segments. They may also target different categories within each segment. The segments include:
Demographic: Characteristics of consumers
Geographic: where consumers live
Behavioural: how customers behave (spending choices, frequency)
Psychographic: social class, attitudes, lifestyle etc.



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- **Learning Aim A** : Promotion

Targeting and segmenting the market

A2

Market segments

Demographic

Age: Markets are often segmented by age ranges to identify specific needs
Gender: Genders have different tastes and have differing needs
Income: Differing incomes determine whether individuals can afford luxury or basic items
Education level: Higher education can sometimes mean higher earnings
Socio-Economic group: Social class is based on income and type of occupation
Ethnicity, religious and cultural beliefs: May influence choices such as food and clothing.
Family size: Larger families usually buy in larger quantities.

Behavioural

Behavioural segmentation looks at how customers relate to products through:

- Spending and consumption
- Usage
- Loyalty
- Desired benefits

Psychographic

Consumers are segmented by personality, likes and dislikes, values, lifestyle, interests and attitudes.

Using psychographic segmentation

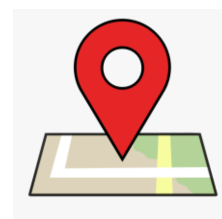
- ✓ Cinemas may offer two-for-one deals, discounts and annual passes to attract regular movie goers and encourage customer loyalty.
- ✓ Products made of recyclable materials may be promoted to meet the needs of environmentally conscious consumers.

Geographic

Where people live influences the products they buy.

For example:

- People living in cold, hot or damp climates will need different types of clothing and transport
- Regional tastes in cuisines means different demands for food
- Customs and cultural characteristics of a country or region affect peoples choices
- The general standard of living in an area will affect how much consumers have to spend



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- **Learning Aim A** : Promotion

Factors influencing the choice of promotional methods

A3

Large enterprises

These are likely to:

- Have a large promotional budget
- Use all of the promotional methods you have revised
- Employ specialist staff to plan and manage promotional methods
- Employ a team of sales staff to promote products
- Hire public relations specialist and agencies to promote the brand

Smaller enterprises

These are likely to have:

- A limited promotional budget
- A narrower range of promotional methods as some would be too costly

They are unlikely to employ specialist staff. Promotions mat only run at certain times to keep costs down. These may be linked to the skills of the owner and employees, the type of products, the size of the market and the budget.

Enterprises need to choose methods that are appropriate for the product based on its size and audience.

The promotional budget

Both large and small enterprises set aside money to run promotional activities.

Budget size is based on:

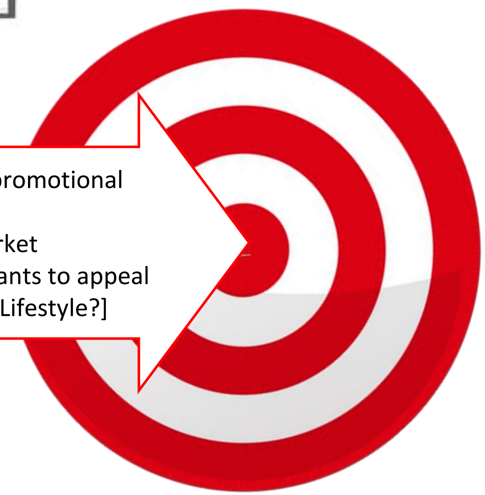
- Size of the enterprise
- How much competition there is – the more competition the higher the spend may be
- Sales revenue – the money received from sales

Budgetary constraints

- Promotional methods may be limited in scope for smaller enterprises with smaller budgets
- Decisions on spending may be influenced by product lifecycle. For example, new products may require a bugger budget than a product with steady sales
- Poorly performing enterprises may have to restrict promotional activities to those that generate most sales

To have positive impacts on sales, promotional methods must:

1. Reach the target market
2. Be based on their habits and wants to appeal to them [Reading? Hobby? Lifestyle?]



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COMPONENT 3 – Promotion and Finance

- **Learning Aim B** : Financial records

Financial documents

B1

Enterprise use a range of financial documents throughout the buying and selling process to record the sale and purchase of goods and services.

Purchase order → Delivery note → Invoice → Receipt → Credit note → Statement of account

Document	Description	Document	Description
Purchase order	• Completed by buyer (the customer) • A legal offer to buy goods from the supplier • List items required, including price agreed and quantity • Sent to the supplier requesting products	Receipt	• Completed by supplier and sent to the customer • A record of payment made by the customer • Rarely used when enterprises sell goods on credit (see statement of account)
Delivery note	• Completed by supplier • Sent to customer when goods delivered • Lists details about the order, including contents of delivery • Lists any goods not supplied, with reasons for non-delivery • Used by the customer to check that goods delivered match goods requested on the purchase order	Credit note	• Completed by supplier and sent to the customer • Lists any goods that may have been returned by the customer • Confirms money refunded to the customer or may be used against the purchase of other goods by the customer in the future
Invoice	• Completed by supplier • A request for payment – sent to customer, either on receipt of goods or shortly after • List price of goods delivered, delivery charges and amounts owed to supplier • States date by which money must be paid • Explains how to pay, for example by bank transfer	Statement of account	• Completed by supplier and sent to customer • A financial summary of the goods ordered, purchased or returned by the customer over a period of time, usually a month • Some enterprises pay their invoiced only after receiving the statement

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COMPONENT 3 – Promotion and Finance

- **Learning Aim B** : Financial records

Accuracy of financial documents

B1

Purpose of financial records

- To aid management decisions
- To determine how much tax is owed
- To track returned items that are damaged/ faulty so a refund can be given
- To check invoices have been paid
- To calculate costs, revenues, profit or loss
- To maintain accurate customer records
- To track whether goods have been delivered
- To provide information for financial statements

Importance of accuracy	
Importance of keeping accurate records	Problems with inaccurate records
▪ Ensure correct goods are delivered in correct quantities ▪ Check customers aren't being under or overcharged ▪ Ensure there is enough stock to meet customer demand ▪ Ensure calculations of costs and revenues are accurate ▪ To ensure enterprise and customer have a clear understanding of the terms of sale ▪ Enable the enterprise to accurately calculate the taxes it owes the government ▪ To allow managers to make strategic decisions	▪ Profits may be over or understated ▪ Not all costs are accounted for ▪ Investors may lose confidence in the business ▪ Reputation for the business can be damaged ▪ Financial statements will not be accurate ▪ It an lead to cash-flow problems ▪ Suppliers and other trade payables may not be paid on time ▪ Bad debts can increase

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COMPONENT 3 – Promotion and Finance

- **Learning Aim B** : Financial records

Payment methods

B2

Debit card

Issued by banks to their customers (account holders); card is linked directly to the bank account.

Credit card

Issues by banks and financially companies. Allows you to spend to your limit and pay back at the end of the month

Direct debit

An instruction to a bank authorising a third part, such as enterprise, to transfer money of various accounts to its own bank on an agreed date. This is such as a phone contract that is taken on the same day every month.

Cash [notes and coins]

Accepted in most places as a form of payment. Money can be withdrawn from a bank account with the use of a debit card. Some shops only accept cash if they do not have the technology available.

Payment technologies

This could be such as PayPal which allows individuals to transfer money safely between buyers and sellers. Money is added/ withdrawn from the individuals bank account.

Cheque

A written order to pay a sum of money from a bank account to the payee. This is a declining method of payment.

Payment methods
There are many different ways for enterprises and their customers to pay for goods and services. Depending on the type of financial transaction, some methods are more suitable than others.

Positive impacts on customers and enterprises	Negative impacts on customers and enterprises
✓ Direct payments	X Theft
✓ Safety	X Identity theft
✓ Pay for large amounts in one go	X Charges from banks
✓ Can be used remotely	X Available funds in bank
✓ Set limits to reduce overspending	X May be limited where can be used
✓ Easier shopping online	X Mistakes made
✓ Interest free periods	X May not be suitable for online purchases

Factors influencing customers choice of payment methods → Convenience → Safety and security → Cost → Ability to pay → Lifestyle → Technology

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- **Learning Aim B** : Financial records

Sources of revenue and costs

B3

Income from sales
This is the most common form of income. Income from sales is known as revenue or turnover
- Cash sales from over the counter
- Credit sales from methods of credit such as a credit card
- Commission received from sales the business has supported
- Repairs of products previously purchased
- Maintenance contracts to regularly service a product and keep it in working order

Income from assets
An asset is something owned by an enterprise, such as property or equipment. An asset can be sold to generate income for the enterprise. There are many ways to generate income from assets:
- Lease or hire out equipment
- Invest in another enterprise to receive a share of its profits
- Put spare cash into an account that pays interest
- Sell assets such as property or equipment to raise money
- Rent out part of the premises to another enterprise.

Start up costs
Before trading these help to set up the enterprise

Start-up costs will be influenced by the type of enterprise. For example:
- A clothing manufacturer will require an industrial premises, machinery and materials to produce goods.
- A high street retailer will require shop premises, shop fittings and items to sell.

To pay for these the enterprise needs to source the start-up capital. This could be from owners own money, money loaned from family and friends, business loan or an investor

Running costs
There are two types of running costs

Fixed costs
These are costs that the enterprise has to pay n mater how well it is doing.
- Heating and lighting charges
- Rent
- Insurance
- Business rates

Variable costs
These costs are directly linked with the number of items produced or sold. For example:
- The more orders a clothing manufacturer receives for t-shirts the more material it will need to produce them
- The more vehicles a car mechanic repairs and services, the more replacement parts would be required.

Total running costs
Fixed costs + variable costs

COMPONENT 3 – Promotion and Finance

- **Learning Aim B** : Financial records

Terminology in financial statements

B4

Financial Terminology

- Gross profit - Turnover minus cost of sales
- Net-Profit - Gross profit minus expenses
- Turnover - Total revenue received by an enterprise in a given financial period
- Debtors - individuals or enterprises that owe money to the enterprise
- Net current assets - value of current assets minus current liabilities
- Current liabilities and long-term-liabilities - what the enterprise owes (including money) which must be paid back within a specific time period
- Cost of sales - cost of producing goods
- Expenses - Indirect costs of the enterprise
- Retained profit - net profit used to help the business grow
- Fixed assets and current assets - things that the enterprise owns
- Creditors - individuals or enterprises, such as suppliers, that the enterprise owes money to
- Capital - money used to set u and then grow the business

Understanding terminology

You may come across the terms below by different names elsewhere.

The different terminology is shown in brackets – they mean the same thing:

- Debtors (trade receivables)
- Creditors (trade payables)
- Fixed assets (non-current assets)
- Long term liabilities (non-current liabilities)

Financial terminology often appearing in financial statements

Statement of comprehensive income	Statement of financial position
Turnover, Cost of sales, gross profit, expenses, net profit, retained profit	Fixed assets, current assets, owners capital, current liabilities, long term liabilities (non-current liabilities), debtors (trade receivables), creditors (trade payables)

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- **Learning Aim B** : Financial records

Statement of comprehensive income

B5

A statement of comprehensive income is a summary of the enterprises activities over a specific period of time, usually a year. It is used by several interested groups of people to understand how well the enterprise is performing.

	£	£
Sales revenue		15 400
Cost of sales		5 200
Gross profit		**10 200**
Less expenses		
Wages	2 800	
Rent	1 200	
Marketing	500	
Transport	1 800	
	6 300	
Net Profit		**3 900**

Sales revenue – This is the revenue received by the business from selling its products. It is also referred to as simply **sales** or **turnover** (net sales) because it takes into account any price discounts or goods returned by the customer

Cost of sales – this includes the cost of making the products.

Gross profit = turnover – cost of sales

Expenses – These are the indirect costs incurred when running a business. Expenses are listed separately in the statement of comprehensive income.

This is the total of the individual expenses.

Net profit – Once sales, cost of sales and expenses are identified, the net profit or loss can be calculated: Net profit = Gross profit - Expenses

In financial statements if figures are shown in (brackets) they are **negative**. The minus sign is not used

Profit
On the example above both gross profit and net profit were positive figures, which means the enterprise made a profit.

Loss
If total costs (cost of sales + expenses) are greater than the revenue, the enterprise will make a loss, as shown in the example.

Interested groups
Several groups of people will be interested in the comprehensive statement of account as they will want to know if the enterprise is being well run.

- Managers
- Employees
- Shareholders
- Suppliers
- Customers
- Tax authorities

Purpose of comprehensive statement of income
The financial statement shows:

- How much revenue the enterprise has received from sales of goods and services
- How much the enterprise has sent
- Where the money was spent