

Unit 5 – Business in Action

5.1 Identifying Business Opportunities

1. Business Terms

Column 1 is a list of business terms and column 2 is a list of explanations. Match the two lists by placing the letter of the correct explanation under the relevant number in the box below.

Terms		Explanations	
1	Research and development (R&D)	A	The point on a graph illustrating the amount of sales that must be achieved at a particular price in order to cover costs and break even.
2	The break-even point	B	Costs that vary depending on how many units are produced.
3	A feasibility study	C	Accessing information that has already been gathered by others, often from reports, magazines and government statistics.
4	Fixed costs	D	Gathering and analysing information about the market for a product or service.
5	USP	E	Investing in the development of new and improved products.
6	A prototype	F	Testing the reaction of a target market to a new product.
7	Variable costs	G	A sample product manufactured on an experimental basis to see if the design idea works in practice and appeals to customers.
8	Product screening	H	Costs that remain the same, regardless of the number of products produced.
9	Test marketing	I	A feature of a product or service which makes it attractive and distinctively different from its rivals.
10	Market research	J	A preliminary report into the profit potential of a business idea.
11	Field research	K	Going into the marketplace to gather business information about customers and competitors directly.
12	Desk research	L	Sorting out business ideas with strong potential from weak ones.

1	2	3	4	5	6	7	8	9	10	11	12

2. Putting theory into practice . . .



facebook®

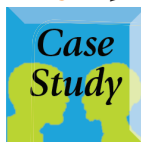
Facebook is an Internet-based social networking service founded by Mark Zuckerberg when he was 20. He got the idea when he was in college studying computer science and set it up originally as a means for students to use the Internet to get to know each other better. What started as a simple idea quickly became very popular and Mark turned it into a proper business by selling advertising on its increasingly popular web pages.

With the widespread use of the Internet, Facebook quickly grew into a **global business**. Within three years of setting up the business, it had become so valuable that Mark became a multi-billionaire. Today, millions of people and organisations around the world use Facebook every day to communicate and share information with friends, family, staff, customers and the public. The company has located its European head office in Dublin.

1. Developing Facebook as a successful business took time. List the **seven** stages that a business idea should go through before being launched.

2. Identify the **two** main types of market research that can be used when researching the market for a new Internet-based business.

3. Putting theory into practice . . .



BREAKING EVEN AT CROKE PARK



The Gaelic Athletic Association (GAA) is a **not-for-profit business** owned by its members. All **profits** generated from games are **reinvested** in the organisation at local and national level.

Croke Park in Dublin is one of the most modern, state-of-the-art stadiums in the world. Developing the stadium has cost the GAA hundreds of millions of euro. The playing surface alone cost the organisation millions of euro. This massive financial investment has been financed from match ticket sales, government grants and the sale of corporate viewing boxes.

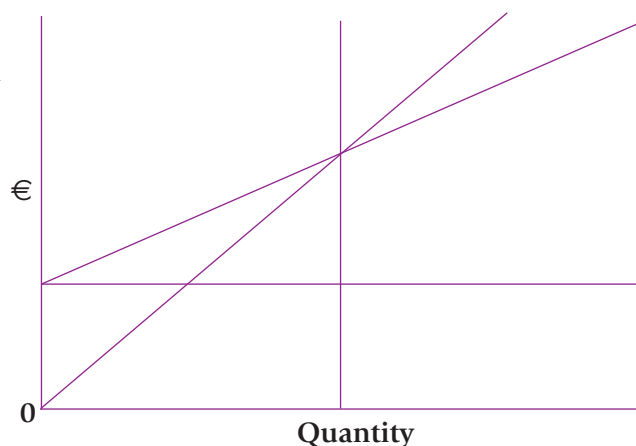
Croke Park has a capacity of 82,000. The average attendance at a match in Croke Park is around 60,000 people. Croke Park's total annual **fixed costs** are over €13 million per annum. This includes the costs of stewards, security and **interest repayments** on loans to build the new stadium, as well as repairs and maintenance of facilities such as escalators, lifts and seating. The GAA carried out **break-even analysis** and, assuming that there are 20 big matches per annum in the stadium, has calculated that it must sell 32,000 tickets at a minimum of €20 each per match in order to break even.

1. List **three** benefits to the GAA of using break-even analysis when assessing the feasibility of a new business idea.

2. Explain how the GAA can distinguish between **fixed costs** and **variable costs**.

3. Label the following diagram for the GAA indicating:

- (a) Fixed costs
- (b) Total costs
- (c) Total revenue
- (d) Break-even point
- (e) Area where profits are made
- (f) Area where losses are incurred



5.2 Marketing

1. Business Terms

Column 1 is a list of business terms and column 2 is a list of explanations. Match the two lists by placing the letter of the correct explanation under the relevant number in the box below.

Terms		Explanations	
1	Branding	A	A form of legal protection that prevents others from copying your idea if you invent or design a new product.
2	Public relations (PR)	B	Charging a very high price at the launch of a new product with the intention of recovering the high development costs as quickly as possible.
3	Advertising media	C	Four elements used to turn the marketing strategy and product positioning into reality – product, price, place and promotion.
4	Marketing	D	Setting a low price deliberately to build up market share quickly.
5	Patent protection	E	Creating an identity for a product that clearly distinguishes it from competitors. It consists of a brand name and logo.
6	Market segmentation	F	Communicating with the media (radio, TV, press) to create good publicity for a firm or its products.
7	Channels of distribution	G	Setting a price based on expectations of customers in the target market.
8	A marketing mix	H	The process of identifying human needs and producing products and services to satisfy them.
9	Price skimming	I	Unplanned decisions by a customer to buy a product.
10	Product life cycle	J	Dividing consumers into different categories, e.g. young females, high-income males, sports enthusiasts, etc.
11	Psychological pricing	K	The various paths which goods may follow from producer to consumer.
12	Penetration pricing	L	A product sold at, or below, cost in the hope of generating other more profitable sales.
13	Loss leaders	M	The communication channels available to a business for its advertising.
14	Impulse purchases	N	A theory that most products go through distinct life stages – development, launch, growth, saturation and decline.

1	2	3	4	5	6	7	8	9	10	11	12	13	14

2. Putting theory into practice . . .



SKODA CARS



The Volkswagen Group is a major producer of cars. Over half of all the company's cars are sold under the Volkswagen **brand**. It also sells cars under the Audi, SEAT and Skoda brand names to appeal to different **segments** of the car **market**.

However VW had a problem with Skoda. Despite charging very competitive prices, the brand had only a very small share of the car market. VW used **market research** to conduct a **SWOT analysis** to find out how it could increase sales in the future.

- **Strengths:** Market research revealed that Skoda has an excellent product reputation for good value and reliability. It is consistently ranked among the top five car **brands** for reliability and customer satisfaction.
- **Weaknesses:** Desk research revealed that Skoda has only a 2% share of the car market. **Field research** revealed that the firm did not have any strong or distinctive image among potential customers.
- **Opportunities:** Research revealed that most car makers emphasise technology or luxury when advertising their cars. As a result, Skoda saw an opportunity to focus on something different - 'happy customers'.
- **Threats:** Competition in the car market is intense and market research revealed that competition from Asian brands is likely to increase.

As a result of market research, the company's management decided to change their **advertising** message to emphasise Skoda's big strength of reliability and that their customers are very happy to own a Skoda car.

1. Briefly describe a simple **marketing mix** that could be applied to marketing Skoda cars.

- (a) _____
- (b) _____
- (c) _____
- (d) _____

2. List **four** factors that should be considered when designing a product.

3. Identify **four** factors which influence the choice of distribution outlet.

4. List **three** methods of promotion which could be used by Skoda to promote a new car model.

5. Draft and label a product life cycle diagram.

SAMPLE

6. Identify **three** main functions of advertising.



www.volkswagenag.com

5.3 Getting Started in Business

1. Business Terms

Column 1 is a list of business terms and column 2 is a list of explanations. Match the two lists by placing the letter of the correct explanation under the relevant number in the box below.

Terms		Explanations	
1	Equity	A	Producing a single product at a time, usually customised to meet the needs of a particular customer.
2	Subcontracting	B	A free gift of money to a business, often for a specific purpose.
3	Sole trader	C	A document describing the business, including the expertise of the entrepreneur setting up the business, the product to be produced, how it will be produced and sold, where the finance will come from and projected profits.
4	Batch production	D	Manufacturing a limited number of identical goods at the same time.
5	Job production	E	Finding a supplier to manufacture part of or the entire product for you.
6	Company	F	A legal form of business that is owned by investors called shareholders and is registered with the Companies Registration Office.
7	Partnership	G	Finance provided by the owners of a business.
8	Venture capitalists	H	Where two or more people are in business together to make a profit but without the protection of limited liability.
9	Business plan	I	Someone who owns and manages their own business on their own and without the protection of limited liability.
10	Grants	J	Firms that specialise in investing in new business start-ups or existing firms with strong growth potential.

1	2	3	4	5	6	7	8	9	10



2. Putting theory into practice . . .



Nutri-Science



Louise Grubb from County Waterford studied nutrition in college and then got a job as a nutritionist in Our Lady's Hospital for Sick Children in Crumlin. However she really wanted to start her own business so went back to college to do another degree in business in DCU.

Using her background in nutrition, Louise had an idea to produce vitamin and mineral health supplements for animals such as cats, dogs and horses. She teamed up with her friend Clare, a pharmacist, to start Nutri-Science Limited. From the beginning Louise felt that it was essential for the business to have a range of products instead of being a one hit wonder so the two entrepreneurs developed a range of animal nutrition products.

Louise and Clare thought carefully about their **marketing mix** and initially decided to target their **products** at vets. They did not compete on **price** but they did put a lot of thought into developing attractive **packaging**. Even though it would be more costly, Louise feels that attractive product packaging helps to project an image of a professional company.

After a slow start Nutri-Science sales began to take off and the business started to grow. After presenting a detailed business **plan**, she got help from **Enterprise Ireland** to begin **exporting** and now has customers in the UK, Continental Europe and North America. Today over 85% of Nutri-Science's goods are exported. Enterprise Ireland also **invested finance** in the business in exchange for a **share of the ownership**.

As an **entrepreneur**, Louise admits that getting started in business was tough. "There is a lot of risk and cashflow is a constant concern," she says.

She is also realistic about her strengths and weaknesses. For instance, she does not see people management as her strong point so has employed managers to assist in the day-to-day running of the business.

Nutri-Science products are produced using **batch production** according to the level of demand. However, for the North American market, the business has **outsourced production** to local American manufacturers. This reduces the cost and risk of shipping goods from Ireland across the Atlantic.

As an entrepreneur, Louise brings persistence, drive and determination to the business and is confident that the business will continue to grow and become a great success.



1. Explain the term **batch production** and use an example to illustrate your answer.

2. List **four** forms of business organisation available to an entrepreneur like Louise Grubb.

3. Outline **three** benefits for Louise in setting Nutri-Science up as a limited company.

4. List **three** sources of long-term finance which would have been available to Nutri-Science when it was being set up.

5. Outline **five** pieces of information that Nutri-Science should include in a business plan.

6. Identify **one** major difference between:

(a) A sole trader and a limited company. _____

(b) A sole trader and a partnership. _____

(c) A partnership and a limited company. _____

(d) A limited company and a co-operative. _____

7. Identify **two** advantages to Nutri-Science of subcontracting production.

8. Identify **two** disadvantages to Nutri-Science of subcontracting production.

9. Match the description with the production method.

	Job	Batch	Mass
Produced by robots on an automated assembly line.			
Each product is a unique design.			
Typically requires the lowest skilled labour.			
Products are produced in identical groups.			
Requires flexible, highly skilled labour.			
Requires the heaviest financial investment in machinery and equipment.			



www.nutri-science.net

5.4 Business Expansion

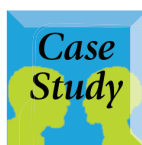
1. Business Terms

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Terms		Explanations	
1	Economies of scale	A	Purchasing at least 50% of the shares in another business.
2	Strategic alliances/ joint ventures	B	The benefits and cost savings that arise in a business as it became larger and more efficient.
3	Franchising	C	A type of company that sells its shares openly on the stock market.
4	Acquisitions	D	Companies in which more than 50% of the shares are owned by another company.
5	Public limited companies	E	Renting out a complete business idea including business name and logo.
6	Subsidiaries	F	Occurs when businesses stop competing and instead conspire to increase prices charged to customers.
7	Enterprise Ireland	G	An arrangement where two or more firms agree to co-operate in the establishment of a project or business together.
8	Cartels	H	A State agency that assists business expansion.

1	2	3	4	5	6	7	8

2. Putting theory into practice . . .



Case Study

Fyffes PLC

Irish company Fyffes has **expanded** to become one of the largest fruit distribution companies in the world. The company has achieved this rapid expansion by following a **strategic plan** to increase sales through a variety of **growth strategies**, including **organic growth** and **acquisitions**. The firm employs over 1,800 people and owns its own fleet of ships to transport fruit from Central and South America to customers in Europe. Fyffes' growth was financed using mainly equity finance. Traditionally, the business has a very low **gearing ratio** to minimise risk.



Fyffes is now the largest banana and fruit distribution business in Europe with large **subsidiaries** in many countries including Holland, Germany, Spain, France and the UK. In fact, the company was so successful in taking over fruit businesses all over Europe that **managers** in the company became concerned that it would have difficulty finding any more suitable takeover targets for future expansion.



1. Outline **four** ways in which an Irish business like Fyffes could expand.

2. List **three** advantages of business expansion to Fyffes.

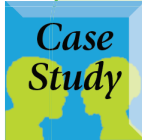
3. List **three** possible disadvantages of business expansion to Fyffes.

4. Identify **three** possible sources of finance for business expansion.



www.fyffes.com
www.enterprise-ireland.com

Unit 5 – Resources & Revision Pit Stop



Jacob Fruitfield Limited

Michael Carey worked as a manager in various food businesses including Jacob's, Batchelors and Kellogg's, gaining wide management experience before deciding it was time to become an **entrepreneur** and go into business for himself.

Michael contacted **Enterprise Ireland** and asked them if they had any ideas that could assist him in setting up his own food business. He learned from the State agency that the Swiss multinational Nestlé wanted to sell one of its struggling Irish businesses, Fruitfield. This included well-known Irish products such as Chef sauces, Fruitfield jams and Silvermints.

Michael was very interested but Nestlé wanted €8 million for the business. He did not have that kind of money, so he set about looking for investors who did. Using a well-prepared **business plan**, he managed to persuade various investors to come on board and back his plan, raising €1 million. He then managed to persuade a bank to lend him the rest of the money and so he was able to buy the business from Nestlé.

Although Fruitfield's products were well known, Carey had bought a business where staff **morale** was low and which was struggling against major multinational competitors. The large bank loan meant that his business was very **highly geared**. Fruitfield needed to start generating profits quickly and begin paying off the large loans.

Michael immediately set about reorganising the business. **Marketing** was revamped with a bigger emphasis on putting together a more effective **marketing mix** for each product. Packaging was redesigned to make it more attractive. Advertising campaigns were designed and launched to rebuild **brand** awareness, while a PR company was hired to promote the business to external stakeholders through favourable media reports.

On the **HR** side, the 130 staff in the factory were given the clear message that 'the doss days under Nestlé' were over. **Absenteeism** dropped from 20% to 3%. A brand new **ICT** system was also introduced to make business communications faster and more efficient.

Michael's efforts paid off and the business became profitable again. A few years after buying it, the business had become so successful that it was able to expand by taking over Jacob's biscuits, with the new, enlarged firm being renamed Jacob Fruitfield.



1. Explain the terms

Entrepreneur: _____

Enterprise Ireland _____

Business plan: _____

Investors: _____

Staff morale: _____

Highly geared: _____

Marketing mix: _____

Brand: _____

Absenteeism: _____

2. Having a well-prepared business plan was essential to Michael Carey when raising finance. List **five** elements of a business plan.

3. Explain **trade credit**, **retained profits** and a **long-term loan** as methods of financing business expansion for Jacob Fruitfield.

4. Michael Carey got the idea for his business by contacting Enterprise Ireland. List **six** other possible sources of new business ideas for an aspiring entrepreneur.

(a) _____

(b) _____

(c) _____

(d) _____

(e) _____

(f) _____

