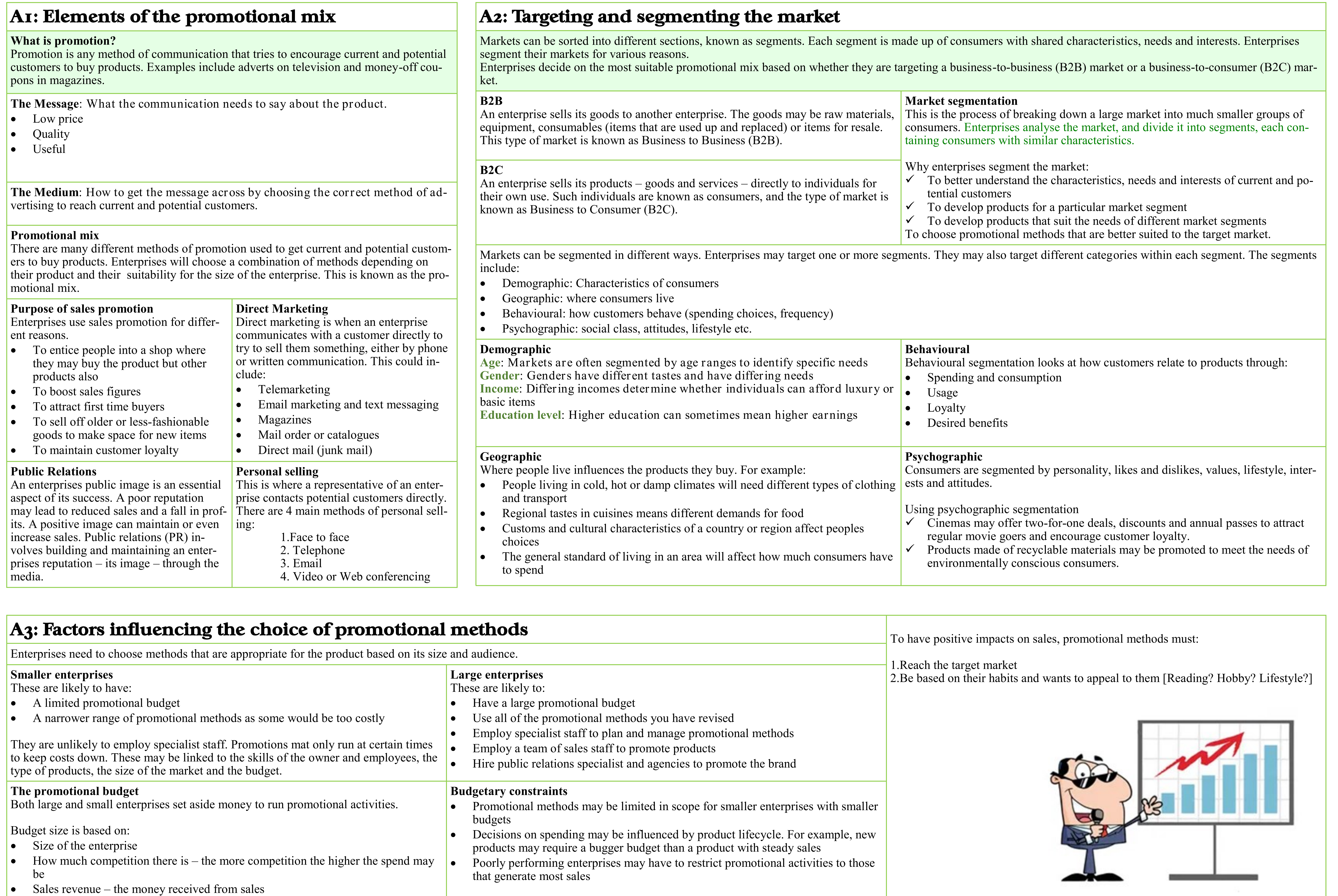
Knowledge Organiser – C3



A1: Elements of the promotional mix

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 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.

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

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. This could include:
- Telemarketing
- Email marketing and text messaging
- Magazines
- Mail order or catalogues
- Direct mail (junk mail)

Public Relations
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.

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
2. Telephone
3. Email
4. Video or Web conferencing

A2: Targeting and segmenting the market

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.

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

Behavioural
Behavioural segmentation looks at how customers relate to products through:
- Spending and consumption
- Usage
- Loyalty
- Desired benefits

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

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.

A3: Factors influencing the choice of promotional methods

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

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.

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

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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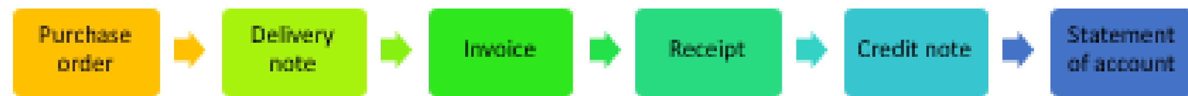
B1: Financial Documents

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



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

B2: Payment Methods

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

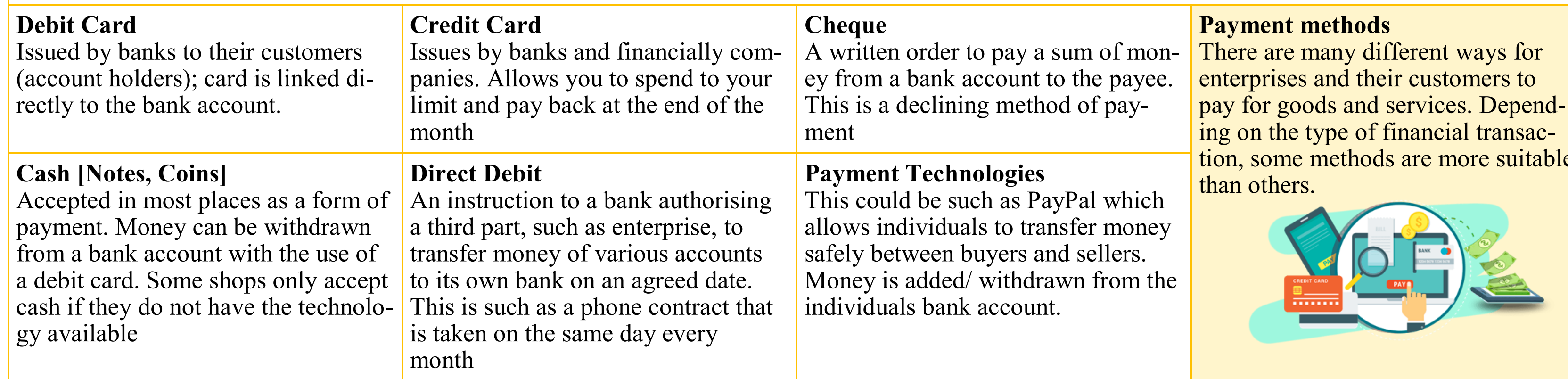
Cheque
A written order to pay a sum of money from a bank account to the payee. This is a declining method of payment

Cash [Notes, 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

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

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.

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.



B3: Sources of Revenue and Costs

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.

Running costs
There are two types of running costs Fixed and Variable.

Total running costs
Fixed costs + variable costs

Variable costs
These costs are directly linked with the number of items produced or sold.

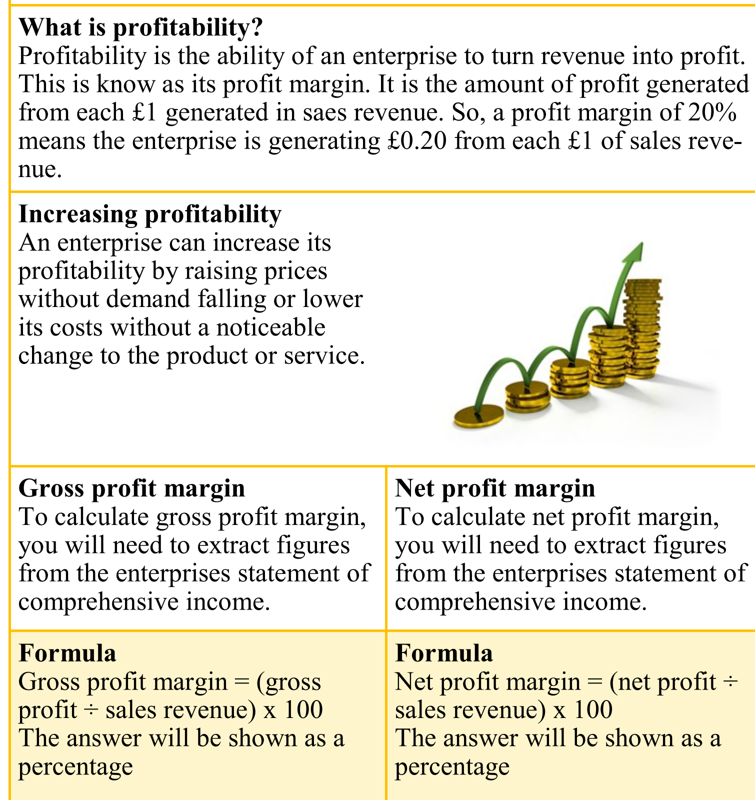
Fixed costs
These are costs that the enterprise has to pay n mater how well it is doing.

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

B7: Profitability and profitability ratios

What is profitability?
Profitability is the ability of an enterprise to turn revenue into profit. This is know as its profit margin. It is the amount of profit generated from each £1 generated in saes revenue. So, a profit margin of 20% means the enterprise is generating £0.20 from each £1 of sales revenue.

Increasing profitability
An enterprise can increase its profitability by raising prices without demand falling or lower its costs without a noticeable change to the product or service.



Gross profit margin
To calculate gross profit margin, you will need to extract figures from the enterprises statement of comprehensive income.

Formula
Gross profit margin = (gross profit ÷ sales revenue) x 100
The answer will be shown as a percentage

Net profit margin
To calculate net profit margin, you will need to extract figures from the enterprises statement of comprehensive income.

Formula
Net profit margin = (net profit ÷ sales revenue) x 100
The answer will be shown as a percentage

B4: Terminology in financial statements

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)

B5: Statement of Comprehensive Income

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.

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

B6: Statement of Financial Position

A statement of financial position is a financial snapshot of the assets and liabilities of an enterprise on a particular day, usually the last day of the enterprises financial year.

Purpose of a financial statement of position
This shows:
•The value of all the enterprises assets and liabilities
•The source of capital used by the enterprise to finance its operations

Preparing a statement of financial position
To prepare a statement of financial position correctly, you first need to categorise the enterprises assets into fixed and current assets and liabilities into current and long-term liabilities.

B7: Liquidity and liquidity ratios

Current ratio and liquid capital ratio
To understand the liquidity of an enterprise two ratios are calculated – one which includes the inventory (stock) and another which excludes it.

Liquidity is the ability of an enterprise to pay its debts
✓ An enterprise with good (positive) liquidity will have sufficient net current assets to pay its creditors. It means the enterprise is solvent – can pay its debts.
X An enterprise with poor (negative) liquidity may not be able to pay its debts. The enterprise may become insolvent and have to cease trading.

Liquidity and cash
If an enterprise needs to pay its debts in the near future – such as wages and heating and lighting – it will need to have access to cash.

The ability of an enterprise to convert its assets into cash is known as liquidity. For example, if a business has to pay its suppliers £5000 in 10 days' time but only has £2000 in cash, it could sell one of its fixed assets, such as a company vehicle it no longer requires, or sell some of its inventory (stock) at reduced prices.

Current ratio
This is the ratio of total current assets and liabilities. It includes both cash and inventory (stock). It is a useful measure of the enterprise's ability to pay its debts, but may be misleading if current assets largely consist of inventory.

Liquidity ratios
If an enterprise needs to pay debts in the near future, such as wages, it will need to have cash. The liquid capital ratio is a more accurate measure of the enterprises liquidity, as it removes inventory (stock) from the calculation, since stock may be difficult to turn into cash quickly.

Current ratio formula

Current ratio =
current assets ÷ Current liabilities

Liquid capital ratio formula

Liquid capital ratio =
(current assets – inventory) ÷ current liabilities

Knowledge Organiser – C3

C1: Using cash flow data

Cash inflows and outflows
Payments from customers are cash inflows. When an enterprise pays a bill, this is an example of a cash outflow. The difference between inflows and outflows is the amount of cash in the enterprise – this is its net cash flow.
An enterprise needs to know how much cash is flowing in and out, and its net cash flow, so that it can ensure it has sufficient money to cover purchases and other running costs such as wages, rent and any monthly loan repayments.

Inflows

- Revenue from sales of goods and services
- Rent from property owned by enterprise
- Sale of assets

Outflows (purchases, including running costs)

- Raw materials for manufacture of goods
- Wages and salaries
- Heating, lighting and power

Enterprises collect cash flow data and use it to produce cash flow statements and cash flow forecasts. They use this information to monitor and control cash flow.

Cash flow statement
This records the enterprise's actual cash inflows and outflows over the previous 12 months. It is used by the enterprise to monitor the flow of cash. Analysis of the previous year's cash flow statement may be used to produce the enterprise's cash flow forecast.
Cash flow forecast
This predicts the enterprise's likely cash inflows from sales, and outflows (purchases) each month over a period of time. The forecast allows the enterprise to calculate net cash flow and ensure it has sufficient cash to cover its running costs.
It is also used to determine net current asset requirements – the working capital needed to operate the business – and to make business decisions.

C2: Financial Forecasting

Analysis of cash flow information
The differences between forecast and actual cash flow can alert an enterprise to cash flow problems. Cash flow information can be analysed to find out where there is a problem – in inflows or outflows. The size of the closing balance will indicate to the enterprise that it mat need to take action to improve cash flow.

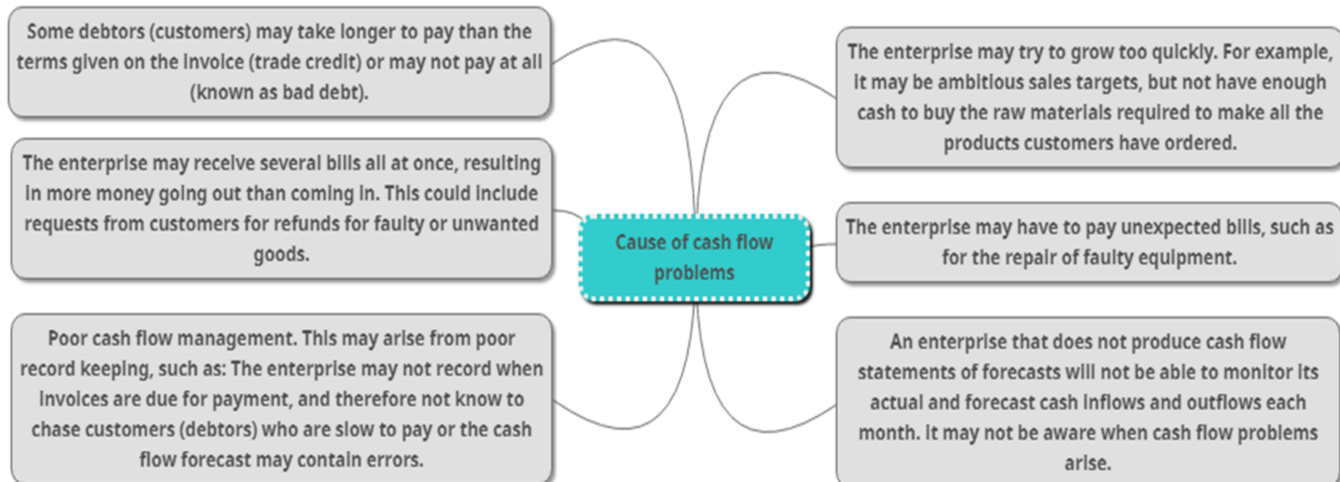
For example, in relation to the image shown on the right:

⇒ Total receipts (cash inflows) show a large increase between February and march, mainly due to the £2000 bank loan.
⇒ The closing balance forecast for April is only £230 as a result of the impact of the net cash outflow. If there is another cash outflow in May, Colin will need to take steps to improve cash flow.
⇒ Rent increased in April from £300 to £1000 per month. The enterprise may have moved to larger premises.
⇒ Monthly loan repayments start in April because the enterprise borrowed the money in March.
⇒ There is a negative net cash outflow in April of £1425. a move to larger premises (the big increase in rent) may mean the enterprise needs additional inventory (stock). Colin must ensure that cash inflows in future months increase, otherwise the business may face financial difficulties.

Analysing the cash flow for Colins Bike Repair Shop:

2019	Jan (£)	Feb (£)	March (£)
Cash inflows			
Repairs	2 500	3 000	3 500
Spare part sales	950	1 000	1 300
Bank loan		2 000	
Total receipts	**3 450**	**6 000**	**4 800**
Cash outflows			
Cycle frames	1 900	2 120	2 400
Bike chains	750	1 900	2 200
Tyres	225	800	1 000
Rent	300	300	1 000
Loan repayment			75
Total payments	**3 175**	**5 120**	**6 675**
Net inflow/ outflow	**275**	**880**	**(1 425)**
Opening balance	**500**	**775**	**1 655**
Closing balance	**775**	**1 655**	**230**

C3: Suggesting improvements to cash flow problems



C4: Break-even analysis and Break-even point

Break-even is when revenue from sales and costs are the same. There is no profit and no loss. At this point, the money that the enterprise has made selling a product is equal to the cost of making the product. The break-even point can be calculated using a formula.

Key Term	Definition	Example and / or Formula
Break Even	Works out how many items a business must sell in order to make a profit	
Margin of Safety	The difference between the sales made and the break even point	Total Sales – Break even point
Fixed Costs	Costs which don't change with output (how many items you make or sell)	Rent, Rates, Insurance, Salary
Variable Costs	Costs which do change with output (how many items you make or sell	Raw Materials, Stock, Wages, Electric used to make product
Total Costs	All of your costs added together	Fixed Costs + Variable Costs
Break-Even Point	When the amount of money spent on making/buying in the product is the same as the money made from selling the product	Fixed Costs / (Selling price per unit – Variable Costs per unit)
Profit	Sales made after the break-even point are a Profit for the company	
Loss	Sales made before the break-even point are a Loss for the company	
Changes to Variable or Fixed Costs	If variable costs decrease, each unit costs less to make. This means they have to sell less to break even. If revenue stays the same they will make a bigger profit	If costs increase, each unit costs more to make. This means they have to sell more to break even. If revenue stays the same
Changes to Sale Price	If the selling price increases the break even point will be lower so they need to sell less. This could affect sales as people won't pay as much so revenue would be less	If they lower the selling price the break even point will be higher so will need to sell more. The lower price might attract more customers and boost their total revenue

Benefits of break-even analysis

- Fixed and variable costs are known, and potential sales revenue can be calculated
- The number of items needed to be sold in order to make profit is known and the enterprise knows which are the most profitable products to make
- The enterprise can take action to increase profit, for example by reducing costs. As well as the best price can be set for the product
- The margin of safety is known.

Risks of not using break even analysis

- Costs are unknown so action cannot be taken to reduce them if they are too high. •The enterprise will not know how many items need to be sold in order to make a profit. If it sells too few, it may make a loss.
- Setting the price of products may be guesswork, resulting in too high or too low a price.
- The margin of safety is not known.

C5: External Sources of finance

Short term finance
Short term finance refers to financing needs for a small period normally less than a year. In businesses, it is also known as working capital financing. This type of financing is normally needed because of uneven flow of cash into the business, the seasonal pattern of business, etc.

Bank overdrafts

Credit cards

Trade credit

C5: External Sources of finance

Long term finance
Long-term finance can be defined as any finance with repayments exceeding one year (such as bank loans, bonds, leasing and other forms of debt finance)

Hire purchase

Bank loans

Government grants

Leasing

Venture capital

Peer-to-peer lending

C5: Internal sources of finance

Internal sources of finance
When an enterprise requires money, depending on the purpose, it may be able to provide the finance itself from its own finances.

Owner funds	**Retained profits**
Sale of assets	**Net current assets**