

NCFE Level 2

Certificate in Creating a Business Start-Up

MARKET RESEARCH

TARGET MARKET

TYPES OF BUSINESS OWNERSHIP

EMPLOYMENT LEGISLATION

HEALTH AND SAFETY

BUSINESS PLAN

Workbook 1

How to use your learning materials

This course is delivered on a flexible learning basis. This means that most of your study will take place away from your Assessor/Tutor. It helps to carefully plan your studying so that you get the most out of your course. We have put together some handy tips for you below.

Study Guidance

- Try to plan an outline timetable of when and where you will study.
- Try to complete your work in a quiet environment where you are unlikely to be distracted.
- Set realistic goals and deadlines for the various elements of your course.
- Plan what you are going to study during each session, and try and achieve this each time.
- After each session, reflect on what you have achieved and plan what you hope to complete next time.
- Remember that not only do you have the support of your Assessor/Tutor, but it is likely that your family, friends and work colleagues will also be willing to help.

Assessor/Tutor Support

Your Assessor/Tutor will be available to support and guide you through the programme. They are experts in your area of study and are experienced in helping many different types of learners.

They can help you to improve the standard of work you submit and will give you useful feedback on areas in which you have excelled, as well as where you can improve.

Remember to listen to, or read, their feedback carefully. Ask if you are unsure about any of the feedback you receive as your Assessor/Tutor is there to help.

Make note of any tips they give. Refer to the learning materials as they contain the information you need to complete the end-of-unit assessments.

Look out for areas in which you can improve, and set yourself an action plan to make sure you complete the required work.

Take positive feedback on board; this demonstrates you are doing things right and have a good understanding of the subject area.

Use the feedback to avoid repeating any mistakes you may have made.

Enjoy your studies!

NCFE Level 2 Certificate in Creating a Business Start-Up

Workbook 1

Workbook Contents

This workbook introduces you to the initial steps for working towards a business start-up, from generating ideas to identifying skills and resources required. It also develops an understanding of how to market a new business, including carrying out market research and creating a brand.

Contents

This workbook contains three sections:

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Each section has a corresponding assessment that must be completed in order to achieve this part of the programme.

The assessments for this workbook can be found in:

Assessment 1

When you have completed this workbook, you should attempt the assessment. Your Assessor/Tutor will then give you detailed written feedback on your progress.

Remember that your assessment answers should be written in your own words. You should not copy answers directly from the workbooks.

NCFE Level 2 Certificate in Creating a Business Start-Up

Assessment 1

Learner contact details

Name: _____

Contact address: _____

Postcode: _____ Contact number: _____

Email: _____

Learner declaration

I confirm that the answers in Assessment 1 were completed by me, represent my own ideas and are my own work.

Learner signature: _____ Assessment date: _____

If you need any help in completing these Assessments, refer to the relevant section within Workbook 1, or contact your Assessor/Tutor.

Please tick one of the boxes below to show what your status will be when you complete this course.

<input type="checkbox"/> EMP 1 In paid employment for 16 hours or more per week	<input type="checkbox"/> GAP 1 Gap year before starting HE
<input type="checkbox"/> EMP 2 In paid employment for less than 16 hours per week	<input type="checkbox"/> EDU 1 Traineeship
<input type="checkbox"/> EMP 3 Self-employed for 16 hours or more per week	<input type="checkbox"/> EDU 2 Apprenticeship
<input type="checkbox"/> EMP 4 Self-employed for less than 16 hours per week	<input type="checkbox"/> EDU 3 Supported Internship
<input type="checkbox"/> NFE 1 Not in paid employment, looking for work and available to start work	<input type="checkbox"/> EDU 4 Other FE* (Full-time)
<input type="checkbox"/> NFE 2 Not in paid employment, not looking for work and/or not available to start work (including retired)	<input type="checkbox"/> EDU 5 Other FE* (Part-time)
<input type="checkbox"/> VOL 1 Voluntary work	<input type="checkbox"/> EDU 6 HE
	<input type="checkbox"/> NFE 4 (please state) _____

Upon successful completion of this qualification, learners will be awarded the NCFE Level 2 Certificate in Creating a Business Start-Up (QRN: 603/3632/8). This qualification is certificated by the Awarding Organisation, NCFE.

Section 1: Initial steps for business start-up

In order to meet all the requirements of the NCFE Level 2 Certificate in Creating a Business Start-Up, you will be required to:

- choose a business start-up idea
- create a logo that represents your business start-up idea
- create two pieces of promotional material for your business start-up
- produce an invoice and payment receipt template for the business start-up
- create a business plan for a business start-up

It's worth starting to think about these now and making notes of any ideas you have to help you in your assessment.

This section will explore the initial steps of business start-up. You will find out about how to develop business start-up ideas, understand business ownership and work out what resources are required to develop a business start-up. You will also develop an awareness of the skills required by someone starting a business. You will choose a business start-up idea on which to base your assessments for this qualification.

Identifying business start-up ideas

Please read the following as it will help you to answer question 1.

The first step in starting a business is deciding what that business will be. Some people will have a great business idea already, and it is that idea that makes them decide to start up their own business. However, many other people will know they would like a business of their own but will not yet have the idea that will generate business.

Identifying business ideas

There are a number of different ways that people come up with business ideas. Firstly, an idea might come from personal experience. This might be from something that you are good at, have training in or love doing, for example.

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Henry's story

Henry wanted to start his own business after leaving art college. He would really like to be a full-time artist but knows that this can't happen overnight and that he needs to be able to support himself. During his time at art college, he produced a few pet portraits for friends and relatives, just as birthday and Christmas presents. He discovered that he liked drawing and painting animals and people said he was very good at it. He did a little bit of research and found that lots of the people he already knows would happily pay for a portrait of their dog or cat. He set up a Facebook page with examples of his work and spread the word about what he was doing amongst friends and family. He soon had a few commissions, and since then the business has grown. He has taken on a part-time secretary to deal with the bookings and buying supplies for the business. The business is perfect for him as he is doing something he loves anyway, and it gives him time to develop his other artwork for exhibitions and competitions.



Knowledge Activity 1: List the things that you like to do most and things that you are good at or have had some training in. For each item on your list, try to think of a way you could make it into a business. Write these down, as they may be useful for your assessment, where you are required to generate a range of business ideas.

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Another personal source of business ideas is personal frustration or irritation about something. Lots of business ideas arise from people thinking of something that would make their lives easier. So whether it's a pizza pan with holes in it so that the bottom of the pizza cooks properly, or an on-call personal assistant to help organise your life, the business idea is a solution to a problem. The chances are that if it is a problem that irritates you, it's probably irritating other people too. It doesn't even need to be unique. For example, the solution might exist in other areas of the country or for a specific industry, but you may be able to launch something in your area or in an industry you are familiar with.

Kristiana's story

Kristiana has two dogs which she loves. Her favourite thing is taking them for long walks. Unfortunately, with her current job, she doesn't have time to walk them. She's always rushing home to feed and walk them briefly before she rushes back to work. And in the winter months, it's too dark to walk them in the evenings. She talks to other people at work and people she knows locally. She's not the only person in this position. There is one local kennels that offers day care for dogs, but dogs have to be dropped off and left for the day. They are in kennels most of the day, but the kennel staff make sure they are exercised during the day and feed them. Owners must pick them up before 6.00pm or else will need to leave them overnight, which incurs an extra charge. Kristiana has heard of dog-walking and dog-sitting businesses in other parts of the country, but there is nothing like this locally. She researches the level of charges for dog walking and works out that she could probably make enough from the business to give up her full-time job.

Knowledge Activity 2: Write down at least two things that really irritate or frustrate you. Now think about what would solve those problems and write down potential solutions. For each solution, try to think of a way you could make it into a business. Write these down, as they may be useful for your assessment, where you are required to generate a range of business ideas.



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If you are already working, you may have some business ideas arising from what you already do. You might think you can offer a better product or service than you are offering as part of your current job role; or you might see other products or services that will complement the products and services you offer in your existing role. Alternatively, you may just meet people during the course of your work who give you ideas by asking for something you don't provide, for example. There are advantages in generating business ideas in this way, in that you may already have the knowledge, market research information and contacts to help establish the business.

Mo's story

Mo has been working for a large store selling home computers, mobile phones and other electronic devices. Lots of customers return to the store for advice on issues such as setting up their devices, how to install software and which software to choose. The store doesn't really offer aftersales advice and, although Mo is qualified to give this sort of help, he is not allowed to do so as part of his job role. Mo talks to the store manager about the possibility of offering an aftersales service, but it is not something that the store wants to take on because they would need to qualify other staff to offer advice. However, the manager says to Mo that if he wants to support customers outside his job role, then the organisation is happy for him to do that. Because Mo works in the store at weekends, he has two days off during the week and decides to use these to start his business. After a year of establishing his business on a part-time basis, Mo has a good reputation and enough customers to give up working in the store and work in the business full time. In addition, the store is happy to recommend him to customers who require aftersales help.



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Knowledge Activity 3: If you have worked or are working, list anything related to your job role that might lead to a business opportunity and describe the business opportunity. These may be useful for your assessment, where you are required to generate a range of business ideas.

Some entrepreneurs may spot a good business idea just by observing what's around them. The story of an iconic restaurant in Hull is an example of this. The owner, John Science, is reputed to have had the idea for his American style burger bar when in London in the early 1970s watching customers going into the newly opened McDonald's. Deciding this would work in his home town, he returned to Hull and set about changing his father's restaurant into an all-American burger bar. The successful restaurant remained a part of Hull local culture until it closed in 2005, and the 'chip spice' introduced in the restaurant is still commercially available today and commonly available in takeaways in Hull and East Yorkshire.

Finally, you might generate business ideas through research. Researching trends in consumerism, changes in lifestyle or likely future developments in technology, for example, might generate the idea for a new business. Identifying that people are retiring earlier but living longer might give an idea for leisure pursuits aimed at older people. Or finding out that people generally have less time to manage the day to day things in life, such as making dentist appointments and taking clothes to the dry cleaners, might suggest ideas for a home personal assistant service.

Choosing the best idea

Please read the following as it will help you to answer question 2.

Once you've generated a range of ideas, you need to choose one on which to base your small business. The idea you choose here will form the basis of your portfolio for the programme and – hopefully – will give you a sound business proposition that you can take forward. It's important to be able to explain your rationale for the business idea you have chosen. This will help you to develop a sound business plan and to explain your idea to potential suppliers, customers, lenders and investors.

Remember that you are looking for the most appropriate business start-up idea to take forward. So, what does most appropriate mean? The business idea should be suitable for you and what you want to achieve, should be a good idea you feel strongly about and should be a realistic business idea.

What you want to achieve

Think seriously about what you want your small business to do. Is it to provide you with an income? To allow you to work for yourself? To allow you to work more flexibly around family commitments? To allow you to pursue an interest or passion? Or simply to support you in gaining some experience in business and business planning (like you are doing by taking this qualification)?

Do you want a small business – just yourself, your family or friends, or just a few employees? Or do you see yourself growing the business into a much bigger concern?

Do you see yourself establishing a business that you can sell, so you can move on to other things? Or will it be a longer-term commitment?

If you don't have some idea of what it is you want the business to do, it will be more difficult to realise it as a plan and a viable business idea.



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Knowledge Activity 5: Write down your goals for starting a business. Why do you want to start a business and where do you see it going?

Why it is a good idea

Think about what it is that is good about your idea. For example, whether it solves a problem, provides something that people need or provides something that is trendy or in fashion. Consider whether there is anything unique about your business idea. It is rare to think of an idea that no one has thought of before, but it could be unique in your local area, or could offer a better product or service than other businesses are offering. If you can't explain why your business idea is a good one, it's probably not!

Another clue that you have come up with a good business idea is excitement about it. If you are excited by the idea, and other people you talk to see its potential, then you may have a winning business idea. Also, if you are excited about it, you are more likely to make it work.

Also consider whether the business idea meets your goals. For example, is it something that can be scaled up to create a much larger business, or will it provide you and your family with a living? It's not a good idea if it doesn't meet your personal goals.

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Why it is realistic

Finally, consider how realistic your business idea is. At this point, you don't need to do a full business plan to test the viability of the idea – that will come later on – you just need to think about some of the initial practicalities of the business idea. For example, if you think your local area could benefit from a new swimming pool and gym, everyone including you might be excited about this idea. It may well be a gap in the market. But as a new small business entrepreneur, is it realistic for you to think you could raise the large amounts of funding this sort of venture would require?

Think about the initial requirements of the business idea. Does it need staff, money, premises and other equipment and if so, is it reasonable to think you could fund that easily from the start?

You should also consider the general business environment and whether it is a good time to start the business you are considering. For example, if there is a recession and people don't have much money to spend, it may not be a good idea to start a business selling luxury items. In times of recession, people cut back on these in order to pay for essentials.

You can find out about the current financial environment and the economy by listening to the news or reading the financial press. The financial times gives a round-up of the UK economy at <https://ig.ft.com/sites/numbers/economies/uk/>



Did you know?

When interest rates are lower and wages are higher, demand for luxury goods (the things we don't need to live) goes up because people have more money to spend on them. If interest rates are high and there is inflation, people will spend their money on the things they need, like food and travel, and spend less on things like going out and going on holiday.



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Gina's story

Gina loves fashion and make-up. She has completed a course at the local college in beauty therapy and wants to run her own business. She already has a few clients who she visits at their homes to give them beauty treatments. She also mixes her own aromatherapy oils, which she uses in her treatments. Whilst she could simply try to attract more clients, Gina wants to do something different with her skills. She would like more time to develop her aromatherapy products and wants a business that she can expand in the future. One of Gina's friends is getting married, and she organises a pamper party for the hen party where she offers beauty treatments and teaches the group some basic make-up and beauty skills. The party is a big success and Gina thinks this might be a good business idea. She could run pamper parties herself to start with, and when the business becomes popular, take on other people to run the parties so she has more time to develop her product range. She's already had a request for a teenage make-up party where she will teach the girls how to apply make-up properly. The business idea meets her requirements in terms of being able to expand in the future, uses her skills, and seems to be popular. It's a good business idea.



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Knowledge Activity 6: For two of the business ideas you have identified so far, ask the following questions and note your answers. Then decide which of the two is the best business idea:

How does the business idea meet your aims for starting a business?

Why is the business idea a good one?

**What factors make the business idea realistic for you to start?
(Consider start up costs and the current business environment.)**

Which of your business ideas is the best? (This will be the idea that you base your assessments around.)



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Products and services

Please read the following as it will help you to answer question 3.

One of the things you will need to be able to do for your business plan is to describe the products and/or services that your business will offer. Products and services are the things that the business sells to customers.

A product is usually defined as a tangible item. This means it's an actual item that you can pick up and use. A service is something that the business does for the customer, so is intangible and cannot be separated from the business providing it. However, many businesses describe their different services as 'products'. For example, insurance companies talk about insurance products when in fact these are services being offered to customers. Here, we will use the word 'product' to describe a tangible item.

Businesses might provide products, services or a combination of the two. Let's look at some examples:

- A product: A pen – the pen is clearly a product, and that is what you are buying.
- A service: Window cleaning – when you pay a window cleaner to clean your windows, you are paying for a service. You don't have a tangible item you can take away afterwards – you just have clean windows.
- Combined product and service: Mobile phone – whilst the mobile phone handset is a product, you will usually also buy the services of a network provider so that you are able to make calls and send texts, etc. This might be on a monthly contract or on a pay-as-you-go arrangement. Sales of mobile phones are usually a combination of products and services.

You need to be able to describe the products and/or services that your business start-up will produce and provide. You should be able to describe:

- the product or service you are offering and what it does
- the likely customers for your product or service
- the features of your product or service – especially those that make it different from competitor products. The features of a product or service are the characteristics it has which help meet the customer needs. Features might include what a product is made of or what the product or service can do

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Gilly's story

Gilly has set up a car valet service that involves hand washing and waxing cars and an interior cleaning service. She runs the business from what was a petrol service station. It differs from other valet services, in that she has converted the shop area into a small café selling high-quality coffee, tea and snacks and with charging points for electronic devices and Wi-Fi. She describes the service as an 'executive valet service' and the features include being able to have a break, lunch, work or even hold a small meeting whilst your car is being cleaned. It's a car valet service for people who are too busy to worry about having their car cleaned. She has quickly built up a customer following amongst professionals such as solicitors and accountants who work in the offices around where she is based. They often meet clients and colleagues and have their cars valeted while they are working.



Did you know?

Most businesses talk about customer service. This is the help and advice that the business gives the customer alongside the products and services it is selling them. Customer service isn't necessarily something you are paying extra for, though you might choose to buy from a business that offers better customer service even if their products or services are a little more expensive.



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Knowledge Activity 7: Research a business that offers a similar product or service to your business start-up idea. Note down how they describe their products and services. You could carry out research on the internet or in businesses in your local area.

Skills to support business start-up

Please read the following as it will help you to answer question 4.

Even when you already have a good start-up idea, it's not a matter of simply starting to plan the business. You need to be sure that that you have the skills to run it. Basically, there are three main roles in any business, each with a set of skills and – as a new business start-up – you may find you need to take on all three roles. If one skill set is missing, this could mean that the business will fail.

The roles are:

- developer
- entrepreneur
- manager

Developer

The developer role is that of developing the products or services and delivering them to the customer. The precise skills required will depend on the products and services to be developed, but you may need skills such as:

- creativity to create products and services
- attention to detail to ensure products and services are of expected quality
- understanding of the products and market to be able to sell products successfully
- practical engineering or manufacturing skills to actually produce products and services
- problem-solving to overcome any issues that affect the product or service design

Entrepreneur

The entrepreneur role is that of a visionary. The entrepreneur has a vision of what the business will look like and how it can develop in the future. An entrepreneur will be constantly coming up with new ideas about the business and planning for the future. Skills required are:

- innovation to come up with new business ideas and take the business to new levels
- vision to see how the business can develop and grow in the future
- communication skills to communicate the ideas to others individually or to groups

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- negotiation and persuasion skills to be able to influence others
- ability to manage risk-taking in the interests of the business

Manager

The manager role is the one that keeps the day-to-day business running. Managers are responsible for planning business activities, ensuring everything is done on time and making sure that the business receives and pays money as required. Skills include:

- organisation skills for planning and managing business activities
- time management skills to ensure things are done on time
- financial knowledge and skills to manage the business finances
- record-keeping skills to keep records for the business
- leadership and management skills to lead and manage staff
- decision-making and problem-solving skills to ensure that issues are resolved, and the business runs smoothly
- people management skills to manage employees, suppliers and other stakeholders in the business
- communication skills to talk to individuals as well as presenting to groups
- sales skills to sell products and services to customers

Some of the skills, such as communication skills and problem solving, are basic skills needed by more than one of the roles, but may be needed for different reasons. There may be other more specific skills required for your particular business. For example, if you want to sell on the internet, you may need the skills to develop a website from which to sell your products.

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Brian's story

Brian wants to start a business making and delivering cupcakes. He will take orders through a website and will have the cupcakes delivered by a courier service. He has listed the skills he needs as:

- creative baking and cake decorating skills and attention to detail
- understanding of trends in the cupcake market and prices charged
- negotiation skills to negotiate with couriers, suppliers and the bank
- website design
- time management skills
- communication skills
- problem-solving and decision-making skills
- sales skills to promote the business
- organisation skills
- financial management skills
- record-keeping skills
- innovation skills to develop new products and services

Brian won't employ anyone to begin with, so won't need to manage other people, though he recognises this might be a skill he needs in the future. Also, for some of the skills he has identified, he could get outside parties to help. For example, he may use a website design company to develop the website, and an accountant to prepare his accounts, though he will still need to keep day-to-day records and manage the day-to-day finances.



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Knowledge Activity 8: List the skills that will be required for your business start-up.

Business ownership

Please read the following as it will help you to answer questions 5 and 6.

When you are starting a new business, one of the things you will need to consider is the ownership structure. In the UK (and in most other countries), there are a variety of different organisational ownership models.

Some of the most common types of ownership for business start-ups in the UK are:

- sole trader
- partnership
- private limited company (Ltd)
- franchise
- charity

Business ownership structures differ in terms of who owns the business, who takes profit from the business and who makes decisions about the business, as well as the requirements for reporting the business profits (known as filing accounts) to the tax authorities.

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Sole trader

Being a sole trader is the simplest form of business ownership. There are fewer regulations for sole trader businesses than for other types of business ownership, so they are easy to set up. On an ongoing basis, there are no financial reporting requirements other than reporting for tax purposes, which makes the accounts and filing of accounts relatively simple. The owner of the business makes all the decisions and may keep all the profits after tax.

The sole trader is also responsible for all of the debts of the business. This means that if the business gets into financial difficulty, the owner may need to use personal wealth to pay the business bills; and if there are legal claims against the business, the sole trader will be responsible for settling them. Unlike limited companies, a sole trader is not seen as separate from the business.

A sole trader business will not continue following the retirement or death of the owner, but the assets of the business can be sold to another person or organisation for them to use to run a similar concern. A sole trader can employ other people, but ultimately the sole trader is responsible for ensuring the business is run on a legal and profitable basis.



Did you know?

The assets of a business are anything owned by the business such as equipment, buildings and land, plus any cash reserves and anything owed to the business by debtors (customers who have bought from the company but not yet paid them). Any amounts that the business owes to creditors (anyone who has loaned money to the business or sold goods that have not yet been paid for) are known as liabilities.

As sole traders grow, there may be a tax advantage in becoming a limited company, as a sole trader will pay tax on all the profits of the business – whether or not they are left invested in the business – and this may attract tax at higher rates.

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Partnership

A partnership is where two or more individuals form a business together. In legal terms, it is very much like a sole trader except that the partners should have a partnership agreement detailing how they will split profits and losses of the business, what salaries will be paid and what happens if there are changes in the partnership such as new partners, retirement of a partner or dissolution of the partnership. Where no partnership agreement exists, the terms of a partnership are determined by the Partnership Act (1890).

As with sole traders, the partners are responsible for the debts and any legal claims of the business to the extent of their personal wealth (unless this has been limited by the partnership agreement). They are also entitled to all the profits of the business. New partners can join the business and partners may leave, but if all partners retire then the business is dissolved. As with a sole trader, the assets can be sold to another person or organisation who can use them for their own business.

The accounts only need to be submitted for tax purposes. As the business grows, there may be a tax advantage in becoming a limited company to avoid higher tax rates where money is being left in the business. The partnership may employ other people, but the partners are ultimately responsible for the running of the business.

Private limited company (Ltd)

The process of becoming a limited company is known as incorporation. In law, an incorporated organisation is treated as a separate legal person. This means that any debts or legal claims against the company must be settled by the company from its resources, and the owners are usually protected from any claims against their personal wealth. Private limited companies are usually limited by shares. This means that the owner or owners hold shares in the company and are financially liable up to the share value. Limited companies may have more credibility with customers than sole traders and small partnerships.

On a day-to-day basis, the business activities of the company are managed by the directors. Directors do not necessarily need to be shareholders (though in small companies, they are often the same people) which means that, unlike most sole traders and partnerships, ownership may be separated from the day-to-day management.

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Shareholders are paid a return on their investment from the profits of the company, and this is called a dividend. The company will decide what dividends to pay out. The company pays tax on the profits. The shareholders pay tax on any dividends they receive. The separation of ownership from management also means that the company can continue even where the shares are sold to other people.

A private limited company must have at least one director who will be responsible for ensuring that the company operates within the law. A private limited company must be registered with Companies House and must complete paperwork on formation and on an ongoing basis.

On formation, they must prepare a memorandum of association which sets out the name, location, functions and objectives of the company; articles of association which describe how the company will be run; a form giving details of the directors, secretary and registered office; and a form declaring that the company complies with the requirements of the Companies Act.

On an ongoing basis, limited companies must produce an annual return with details of any changes in directors, shareholdings and location of the registered office, and must file annual accounts with Companies House as well as the government for tax. Larger companies must have an annual audit by an independent firm of auditors, and their financial accounts will be published by Companies House.

Most new business start-ups that choose to set up as limited companies will be private limited companies. It is possible to set up a public limited company (plc), but this must have a share capital of at least £50,000 and must meet very strict regulations. Public limited companies can sell their shares to the general public through the stock exchange.

Some not-for-profit companies such as sports clubs or property management companies are limited by guarantee. In these companies, the members guarantee to contribute an amount to the company if the company is wound up and there is not enough money to settle debts. It is usually a nominal amount of £1 per member.



Did you know?

In many small private limited companies, the shareholders and directors are the same people. Whilst liability is limited by law, in practice if the company borrows money then banks will require the directors to provide a personal guarantee, which means that their personal wealth could still be at risk if the company fails.

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Franchise

A franchise is a way of setting up your own business using an established business idea. It is a joint venture between the franchisor – the person who owns the business idea – and the franchisee – the person who wants to run a business. Examples of franchises are Domino's Pizza and Subway. The franchisor provides the business model, training and ongoing support, and, most importantly, the brand. The franchisee is responsible for the premises, the staff and for selling the products. The franchisee will pay the franchisor an initial fee for the rights to the brand and an ongoing royalty, which is usually a percentage of sales paid on a regular basis, e.g. monthly or quarterly.

The franchisee gains the benefit of selling an established brand, but will not have as much freedom as they would if they set up their own business. Most franchisors have strict controls over the look of premises, the products sold and the prices.

The person who buys the franchise (the franchisee) can be a sole trader, partnership or limited company.

Charity

A charity is a non-profit-making organisation that raises money from its activities in order to provide a benefit to the beneficiaries of the charity. For example, a charity shop supporting homeless people might sell items donated to it in order to raise money to provide food, shelter and clothing for homeless people (the beneficiaries). Charities are run by trustees, who have the same sort of responsibilities as company directors in making sure that the charity complies with the law and works towards achieving its objectives.

Charities can be set up as limited companies or can be unincorporated organisations run by the trustees. Trustees are not paid, and many of the staff in charities are volunteers. Most of the surplus (known as profits in business organisations) will be used for the charity's main purpose. The government may allow some tax advantages for charities so that more of the surplus can be distributed for the chosen cause.

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Denise's story

Denise wants to start a business running a stage school for children. She's a trained drama and dance teacher and she knows there is nothing like this in the area. She needs to decide which business ownership model to choose. She will run the stage school on Saturdays in the local town hall, but will need to borrow some money from the bank for some equipment and to pay three months' hall hire upfront.

Denise has the possibility of entering a partnership with her friend, who is a qualified singing teacher. She is also looking at the possibility of a private limited company. She would need to give a personal guarantee for the loan from the bank, but the limited liability of the company would protect her in any legal claims. She will need to take out public liability insurance to cover against accidents and injuries during classes.

Another option for Denise would be to run the business as a franchise of one of the existing branded stage schools. For this, she would need to borrow a larger amount from the bank but she would be provided with everything she needed to set up the business, along with training and national and local advertising.



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Comparing business structures

When deciding which type of business structure to use, it is useful to look at the advantages and disadvantages of each to help make the decision. The table below summarises the advantages and disadvantages of each ownership structure.

Type	Structure	Advantages	Disadvantages
Sole trader	One business owner	<ul style="list-style-type: none">● Low cost and easy to set up● Owner has full control● Owner keeps all profits● Very few regulations	<ul style="list-style-type: none">● Fully liable for all debts● Pay tax on all profits● May lack credibility
Partnership	Two or more owners	<ul style="list-style-type: none">● Same advantages as sole trader, except shared control, which can be better for decision making● Shared liability● May be easier to raise finance with more than one individual	<ul style="list-style-type: none">● All partners fully liable● Tax is paid on all profits, though shared between partners● May lack credibility● Can be more difficult to close down, as everything needs to be split between partners
Private limited company	Owned by shareholders	<ul style="list-style-type: none">● Owners only liable to extent of investment● May be tax advantages● More credibility● Not as much regulation for smaller companies	<ul style="list-style-type: none">● Financial reporting regulations● Administrative demands and costs● Accounts made public● Smaller companies may need to give personal guarantees for loans anyway

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There is no right answer here. Every business owner must choose the form they feel most comfortable with. Your choice of business ownership for your own start-up idea will be influenced by your perception of risk, your goals for the business, the type of business and the resources initially available to you.

Human resources

Please read the following as it will help you to answer question 7.

Human resources are the people who work in a business. Many small businesses start as single person businesses and don't employ anyone to begin with. However, when they begin to grow, they may need to employ people to take on some of the work. Even if you are not planning on employing anyone, it's important to understand the different roles in the business and the areas where you need to develop your skills. Managing human resources includes ensuring that people, including yourself, have the right skills for the job.

To plan human resources for your start-up, you need to first consider the business and list the different areas of work. These might include:

- manufacturing products
- distributing (delivering) products
- marketing
- selling
- administration
- accounts and finance
- overall management of the business

Once you have a list of areas, think about which roles you will fulfil initially – and that may be all of them! You will probably need to be overall manager at least to begin with, as you will need to fully understand what is going on in the business. But in a start-up, even if you employ people straight away, you will need to take on other roles yourself. Think about:

- the things you are good at
- why you wanted to start the business
- the areas where you don't have the knowledge and skills required

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For example, you may be good at designing and making products but not so good at marketing and selling them.

Having identified the roles you can do well, you can decide where you need to develop skills and/or where you need to employ others to do the job. If you decide to take on roles yourself but don't have the skills, you will need to think about how you develop those skills. This might involve a training course, for example. Many local chambers of commerce, and similar organisations supporting business, run business skills courses that are cheap to attend or even free.

If you decide to employ someone, you need to be able to describe what the job will involve and what qualifications, skills, knowledge and experience you would expect the person you employ in the role to have. Most organisations set these descriptions out formally in a job description and person specification:

- **A job description** is a document that describes the responsibilities and activities involved in the job role.
- **A person specification** describes the qualifications and experience a person in that job role would be expected to have.



Knowledge Activity 10: Think about one role in your business start-up.

Look on the internet to find a job description and person specification for a similar role. You might try job sites such as Indeed (www.indeed.co.uk), Reed Recruitment (www.reed.co.uk) or Monster (www.monster.co.uk) for ideas. Note down what is covered in the job description and person specification that you find.

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Another useful way for small businesses to cover job roles is by outsourcing. Outsourcing means finding another business to complete specific tasks. For example, many businesses requiring delivery services will use an existing postal or courier service rather than run their own vehicles. Or, if you decided you needed someone with skills and knowledge in keeping accounting records for your business, you might pay a local bookkeeping service for one or two hours a week. There are a wide variety of businesses who offer services to other businesses. Some examples are:

- cleaning
- secretarial and reception services
- delivery
- bookkeeping and accounting
- advertising and selling

Debbie's story

Debbie makes handmade paper scrapbooks and photograph albums. She enjoys the making side of the business, but needs to reach a wide market. She thinks about employing someone to sell her products, but realises they could only cover a small area. She decides to look into selling on Amazon or eBay. She can have her own virtual shop and can reach customers nationally and internationally. She approaches a local IT development company to support her in setting up the systems she needs and outsources the technical side to them. They also train her on how to add items to the store and manage payments, etc. As the business grows, she employs a part-time administrator to help her with packing and sending the orders. Debbie's human resources are a mixture of herself, outsourcing and a part-time employee.

Did you know?

Amazon offer a range of services to businesses that want to sell goods, and many small businesses have grown considerably by selling through Amazon. You can find some case studies on <https://smallbusinesssaturdayuk.com/case-studies>.



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Physical resources

Please read the following as it will help you to answer question 8.

Physical resources are the tangible items that the business needs. Physical resources include:

- premises, buildings and facilities
- machinery, vehicles and equipment
- raw materials, stock and supplies

Premises, buildings and facilities

Premises or buildings are where the business operates from. Depending on the type of business, it may be offices, a workshop, a factory or land. The premises will also probably need facilities such as water, electricity and a kitchen and toilets for staff.

Premises need not be very large, as long as they provide the space and facilities that the business needs. They needn't even be separate business premises. Many small businesses are started at home and move into premises when they need more space. Whilst you may like the idea of separate business premises – a nice office or workshop – you shouldn't discount the idea of starting from your garage or kitchen table. It will save you money and be simpler to set things up.



Did you know?

In 1975, two twenty-year-olds started a computer business in a parents' garage. They were Steve Jobs and Steve Wozniak and the business was Apple!

Note that not all businesses can be run from home. If you need commercial equipment, for example to manufacture goods, or need customers to visit the premises as for a retail selling business, you will need commercial premises.

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Many cities and larger towns have enterprise centres designed for start-up businesses. These are offices and workshops that can be rented on reasonable terms and don't tie the business in for long periods in case they grow and need bigger premises. These centres may also offer office support such as receptionist services, administration services, meeting rooms and services such as photocopying and printing.

Machinery, vehicles and equipment

In addition to land and/or buildings, most businesses require some sort of machinery and/or equipment. What is required will again depend on the type of business. If you are running a business doing web design, you might just need a computer and telephone with internet access. If you are setting up a retail business, you will need a till and display units for your goods. If you are manufacturing something, you may need heavy machinery.

Most businesses will require a desk, computer, printer and telephone to set up a basic office for customers to contact them and to keep the relevant business records. Some businesses may also require vehicles, e.g. vans to deliver goods or carry equipment or cars to visit customers.



Did you know?

Businesses don't always need to buy machinery, equipment and vehicles outright. They can often be leased – a sort of long-term rental agreement – or purchased on a hire-purchase agreement where they are paid for over several months or years.

Raw materials, stock and supplies

Lastly, the business may need raw materials and supplies. Raw materials are the items the business uses to make the goods it is selling. For example, if you are a bakery, raw materials will include flour, sugar, eggs and other ingredients used in baking. Businesses that buy and sell goods – such as shops, for example – will also need stocks of products for the business. Supplies are other items used in the business such as paper and pens, cleaning materials, coffee and milk.

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Callum's story

Callum trained as a mechanic and has decided to start his own business. He has found a small workshop to rent that is already equipped with a car ramp and inspection pit. The workshop also has a small office where he can keep the records for the business. Callum already has most of the tools he will need, but is borrowing some money from the bank to lease some larger pieces of equipment and to buy a computer, desk and chair for the office. He knows he will also need to buy office supplies such as paper, and printer ink; and also stock and materials for the business such as oil filters, motor oil etc. He will buy any spare parts as he needs them from a supplier that provides same-day delivery.

Jason's story

Jason trained as a hairdresser and now wants to set up on his own. He knows he won't be able to afford a salon, at least to start with, but has decided to offer a mobile hairdressing service. He has all the tools he needs, but will need supplies such as towels and hair products. He will also need a vehicle to get him to customers' houses. He will do the record-keeping and accounting for the business on his laptop at home and will use a mobile phone to take bookings.

When you are thinking about the physical resources required for your start-up, you should consider each stage of the business, from the initial contact with customers to the delivery of the product or service, and list all the physical resources you need.



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Technological resources

Please read the following as it will help you to answer question 9.

Technological resources are those things that are required for the business but are not in a physical form. They include things like software, systems and intellectual property. Some businesses will rely more on technological resources than others, but all businesses will have some technological resource.

Software

Most businesses will use some computer software. This might be simply to receive and send emails, to produce documents or presentations, or to manage a business website; or it might be more specialised, such as accounting software or some specialised software related to the type of business. Businesses need to ensure that they have the appropriate software licences for the software they are using.

It is important that the software licence is appropriate for the way in which the software is to be used. For example, some software may have different licences for business rather than for personal use; some will allow use on multiple machines and by multiple users, while others may only permit a single user. Some businesses may require staff to be able to use software at home, and this may attract different terms.

When describing software resources, think about how the software will be used and how many different computers and users require the software. If you do not purchase the correct licences, you may be breaking the law by using the software and may be fined and required to pay compensation.

Systems

Businesses may use a number of different systems. Systems include the policies, processes and procedures that the business uses to complete a specific task. Policies are the guiding principles that explain the purpose of a system and what you are trying to achieve. Processes are the work activities themselves. Procedures are instructions on how processes should be carried out.

Some examples of business systems are as follows:

- Communications systems are systems used to communicate with employees, suppliers and customers, for example.
- Customer relationship management (CRM) systems are the systems used to manage the relationships with customers and to store their details.

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- Management information systems (MIS) are information systems used to manage decision-making for the business.
- Stock management systems are systems used to manage the ordering, storage and distribution of materials and supplies for the business.
- Data storage systems are the systems used to store data, which could include manual storage, computer storage and cloud storage.

You should be able to describe any policies, processes and procedures that your start-up business will need in order to operate. For small businesses, systems don't need to be complex.

Intellectual property

Intellectual property is the term used to describe creations such as inventions, artwork, literary works, designs, names, brands and images, for example. Most creations can be protected in law, and this will stop other business organisations from stealing and using the ideas. A business may wish to protect:

- a brand or name by registering a trademark
- a design for a product by registering the design
- written or literary works or artworks through copyright protection
- a process or the way a product works by registering a patent

You can find out more about protecting intellectual property on the government site: www.gov.uk/intellectual-property-an-overview

A business should also ensure that it does not breach the design rights, patents or copyright owned by someone else; or use someone's trademark without permission to do so.

When describing intellectual property for your business idea, you should consider anything you will produce that you may need to protect; and anything that you need to use and may need permission for from the owner of the intellectual property.

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Cost of resources

Please read the following as it will help you to answer question 10.

An important initial stage in starting a new business is to cost the resources you need. This will give you an idea of the funds you need to be able to start the business (before you start getting money in from sales). You will need to carry out some research to find out how much you are likely to need to pay for resources.

Sources of cost information could include websites, catalogues or price lists from suppliers of goods and services that you need to buy. If you are buying raw materials to use in the making of a product, you may be able to buy these wholesale. Some organisations may also have special rates for business customers, e.g. for IT support services.

For costs related to employment, you should research similar job roles in your area to find what employers are generally paying for the type of staff you need. If you want more experience or a qualification, you may need to pay higher than average rates. If you are willing to train a relatively inexperienced person, you may be able to pay lower than average. Wages will be reduced proportionately for part-time work. Note that there is a minimum wage set by the government that you need to pay (www.gov.uk/national-minimum-wage-rates) and that there may be other costs associated with employment, such as buying protective equipment or clothing, paying for licences or statutory training (health and safety or food safety), paying employer's national insurance (www.gov.uk/national-insurance-rates-letters) and paying pension costs.

If you need to register a design, patent or trademark or need a licence, you will find the costs for these on the relevant government, local government or other licencing authority website. There are specialist agencies and solicitors who can help with the registering of intellectual property, and you may wish to include fees for these in your costing.

For costs of premises, you could look on estate agent sites in your local area. Some agents specialise in commercial property, but most agents will have some commercial property on their books. As well as the main cost to buy or rent premises, you should consider associated costs such as business rates paid to the local authority, property insurance, and any permissions for change of use.



Section 1: Initial steps for business start-up



Knowledge Activity 11: List the main sources you might use to cost the resources for your own business start-up idea.

Summary

In this section, you have learned about:

- how to identify new business start-up ideas
- how to choose a business idea that has potential and will help you achieve your goals
- how to describe the products and services your business start-up will produce
- the skills that may be required to start a business
- the different types of business ownership and their advantages and disadvantages
- the human, physical and technological resources that businesses use
- how to cost resources for your business start-up

Section 2: Marketing for a business start-up

This section will develop your understanding of markets, market research, branding and marketing. You will explore the target markets for a start-up business and consider the brand identity of the business. You will carry out market research to test the viability of your business idea. The section also explores promotional and pricing strategies that you can apply to your business idea.

Target markets

Please read the following as it will help you to answer question 11.

One of the most important areas in business is understanding your target market. You have chosen a product or service for your business start-up to provide, but you need to identify who you will provide it to. If you have no target market, you have no business.

The first step in identifying your market is to think about your product or service and what problem it solves or the features it offers. Decide who is most likely to experience the problem or to benefit from the features of your product or service. Maybe there is a gap in the market that your product or service will fill. Think about the purpose of the product or service, whether it is a luxury item or serves a basic need and, if there are competitors, why some people will buy your product instead of theirs. Then you can start to list the different types of customers who might buy your products or services.

The target market will depend on your business idea, but you might think about your customers in terms of:

- Gender – will the product or service be more attractive to males or females? For example, beauty treatments are most often bought by women.
- Age group – is the product or service more likely to be purchased by younger people or older people? For example, younger people might be more inclined to buy the latest fashions.
- Family situation – is the product aimed at single people, married people or families? For example, if you are selling meals for one, your market is most likely to be younger and older people who live alone.
- Geographical area – is your product or service offered in a particular geographical area? For example, if you were offering a window cleaning service, this would probably be tied to a specific geographical area.
- Specific interests – is the product or service aimed at individuals who have a specific interest or hobby? For example, if you plan to sell craft materials to make greetings cards, you will sell to people who like doing arts and crafts or who provide resources for others to do them, e.g. schools or day care centres.

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- Work occupation – is the product or service most likely to sell to people in a particular occupation or type of occupation? For example, if you plan on selling protective work boots, most of your customers will be individuals who work in construction or other occupations where the feet need to be protected.
- Income – is your product an item that is likely to sell to people in a particular income bracket? For example, designer suits are more likely to sell to individuals with higher incomes. If you open a ‘pound shop’, your customers are more likely to be in the lower income bracket.

Another consideration is whether you will sell to individuals, businesses, or both. There are many businesses who simply provide products and services to other businesses, and this can be a more stable and predictable market than individual customers. If you are providing bookkeeping services, for example, the businesses that use your services are likely to do so on a long-term basis. If you are selling the latest fashion trainers, fashions change and you will need to keep ahead of the trend to maintain your customer base.

Some businesses sell successfully to other businesses and to individuals, by offering different products, different terms or different prices, for example for bulk buying. You should think about whether your product or service has potential in both business and consumer (individual) markets.

Describing your customers in this way doesn’t mean that you only have to sell to these customers. In fact, you want to widen your customer base as much as possible. However, these will be the easiest customers to target and are most likely to be your main market. These will be the customers who you aim advertising and promotions at to begin with.

Afnan’s story

Afnan has decided to start a window cleaning business. The local window cleaning company has closed down because the owner has retired, and Afnan has spotted that there is now a gap in the market. He lives in the Midlands in an area with many housing estates and small businesses. He thinks his customers will be people who live in the housing estates where he lives, and small businesses such as corner shops, newsagents and petrol stations.

Section 2: Marketing for a business start-up

Katie's story

Katie is a trained hairdresser and beauty therapist and wants to open a salon. There's lots of competition in the area where she lives, but she believes she has spotted a gap in the market. She has identified that, despite the growing number of men who take a lot of care over their appearance, there are few hair and beauty services aimed directly at them. In the town where she lives, there are a few traditional barbers, but they offer fairly basic haircuts, and most salons offer men's haircuts but don't appear to have many male customers. She intends to open a salon specifically aimed at men, offering fashion cuts and some skin and nail treatments specifically for men.



Knowledge Activity 12: List the main customers who might buy the products or services you plan to provide, and say why.



Section 2: Marketing for a business start-up

SWOT analysis

Please read the following as it will help you to answer question 12.

A useful tool to analyse the business is a SWOT analysis. A SWOT analysis helps you to analyse the strengths, weaknesses, opportunities and threats relating to your business idea. Strengths and weaknesses are the things that the business is good at or needs to improve. These are internal factors that support or hinder the business. Opportunities and threats are factors that have an impact on the business. They are external factors: things that the business can't necessarily control but may need to take account of when making plans.

Internal Factors		External Factors	
S Strengths	W Weaknesses	O Opportunities	T Threats
<ul style="list-style-type: none">● Things that the business will be able to do well● Things that make the business different from competitors● Skills and experience that the business has● Intellectual property, technological and physical resources that the business can use	<ul style="list-style-type: none">● Areas where the business is weak or needs development● Things that the business will not be able to do● Things that competitors may be able to do better● Lack of resources required for the business	<ul style="list-style-type: none">● Identified customer base and markets for products and services● Lack of competitors in identified markets● Fashion trend or need for the business products and services● Positive media coverage or public opinion around the business or industry	<ul style="list-style-type: none">● Lots of competitors or new businesses entering the market● Changes in law, regulations or technology impacting on the business● Negative media coverage or public opinion around the business or industry

Did you know?

Positive or negative media coverage or public opinion can create opportunities or threats for the business.



Section 2: Marketing for a business start-up

Toni's story

Toni is opening a clothing shop selling vintage clothing and second-hand items she has updated, at reasonable prices. Her market is individuals who want unique fashion items but not at designer prices. A recent media campaign about recycling, and a programme about some designer clothing being manufactured in factories where the workers are exploited, means that people are looking for alternatives that fit with their environmental and social principles. This represents an opportunity for Toni's business. Toni decides to do a full SWOT analysis for her business.

The SWOT analysis

Internal Factors		External Factors	
S Strengths	W Weaknesses	O Opportunities	T Threats
<ul style="list-style-type: none">● She is a trained dressmaker● She already has a stock of clothing to work with● She can buy stock cheaply from charity shops and jumble sales● She is offering a unique product at a reasonable price	<ul style="list-style-type: none">● She needs capital for premises● She has no selling experience● She will only be able to access local markets	<ul style="list-style-type: none">● The recent recycling and ethical business campaign makes her business more attractive● She has the option of selling online through Etsy or similar websites● The local college offers a small business evening class	<ul style="list-style-type: none">● There are a lot of cheap fashion clothing stores in the town● The country is coming out of a recession slowly and clothing sales nationally are down

A SWOT analysis will give you a better understanding of your business, and you can use the information to address issues and improve your business idea. Take advantage of the business's strengths and opportunities, in order to try to minimise threats and address weaknesses. For example, Toni from our story could take a small business course to develop her selling skills and gain the knowledge she needs to sell online. Selling online will help her reduce the impact of local competition on her business, as she will be accessing a wider market.

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Knowledge Activity 13: Do a SWOT analysis for your own business idea. Keep your notes, as you may wish to add to the analysis and use it for your assessment.

Internal Factors		External Factors	
S Strengths	W Weaknesses	O Opportunities	T Threats

Market research

Please read the following as it will help you to answer questions 13, 14 and 15.

Market research is about collecting information to support you in planning your business. The type of information you might research includes:

- **Information about the industry you will be working in, whether it is growing or shrinking, and the changes that are affecting it such as changes in legislation or consumer taste.** Evidence of a strong and growing industry will help you to be more confident about your business idea and will support any applications you are making for outside financial or other support. If the industry is static, or shrinking, then you need to think about why your business can be successful when others are closing down or moving out of the industry. Information will help you to decide whether your decision to enter a particular industry is a good one.

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- **Information about your potential customers, who they are and what they want from a product or service.** You may have some idea about who your likely customers are, but research into potential customers will back up your picture of the customer base. Information about customers and their needs will help you to decide whether your business idea is viable and give you information about the customer base that you can use in promoting the business. You may be able to determine the likely numbers of customers, which will support profit and cash forecasts for the business.
- **Information about your competitors and the products and services they offer.** This information will help you to determine how much competition there is in the market. You will also be able to look at what you can do differently from competitors and the things that their customers complain about. This will help to improve the products and services you offer to customers and help you sell them despite the competition.
- **Information about products and services, their features and benefits.** By researching products and services that are already on the market and the features and benefits they offer, you can determine what you need to do to make your product or service better than the competition. By talking to potential customers about the products and services you will offer, you can find out whether they will meet customer requirements or whether there are features and benefits you could add to make the product or service more saleable.

Market research methods

There are lots of different sources of information and market research methods you can use. Market research methods are divided into two main groups:

- **Primary research** – this involves collecting and analysing new information for the specific purpose of supporting your business idea.
- **Secondary research** – this involves collecting and analysing existing data that another person or organisation has gathered and made public.

Information collected might be:

- **quantitative data**, which is factual data, e.g. how many clothing shops there are in your local town
- **qualitative data**, which is opinions and views, e.g. what people think of the clothing shops in your local town

Primary research

To carry out primary research, you will need to interact with consumers and other people to find out the data you need. There are different methods of doing this:

- **Questionnaires and surveys** – you can carry out a survey by producing a list of questions and asking people to provide answers in writing, on the internet (e.g. using a site such as www.surveymonkey.co.uk), or by asking them questions face-to-face and writing down their answers.
- **Observations** – you may be able to get the data you want by observing people and what they are doing. For example, you could count how many sandwich shops are on the high street and how many people are using them, to see whether there may be room for another food business.
- **Interviews** – you could carry out face-to-face interviews with people to ask them about the products and services they might be interested in buying and how much they might pay, or to ask about their experiences of different types of products and services.
- **Focus groups** – these are groups of customers, usually with a similar customer profile; for example, young mothers or university students. The group is invited to have a discussion that will help to answer a particular research question. A moderator will facilitate the discussion and put questions to be answered to the group, but should not lead them towards particular answers. Focus groups might be useful for finding information about desired features on a product, for example.
- **Hall tests** – these are designed to test reactions to a particular product or advertisement. People are usually selected in the street and asked to come into a hall or office nearby where they test out a product, look at packaging or branding, or watch an advertisement and give their reaction to it. They might be asked a series of questions on paper, on computer or face-to-face about what they think.
- **Consumer trials** – consumer trials are where a small number of products or services are trialled with consumers to see what they think of them before the business goes into full production.



Section 2: Marketing for a business start-up

Kieron's story

Kieron is looking at producing a new range of healthy snacks aimed at students. He holds a focus group to ask a group of students what sort of snacks they eat now and what would make them buy something marketed as a healthier snack. He designs an online survey for the students at the local university to see how often they eat snacks and how many would like to buy healthier snacks. He also develops a small range of healthy snacks and conducts a taste trial at the university to see if the students like what he is producing. This helps him to determine the types of snacks that students would like to buy and estimate the number of students that might buy healthier snacks.



Knowledge Activity 14: Identify two primary research methods that you could use to find out information about your business. For each, explain what you could find out and how that would support your business idea.

Secondary research

Secondary data might come from articles, books, newspapers, TV or the internet. Sources include news items and research carried out by other agencies and organisations that produce general data on the economy or specific industries. Many industry sectors have industry bodies and professional organisations that provide information about the industry, or there may be an industry magazine that will help you.

Section 2: Marketing for a business start-up

Business branding

Please read the following as it will help you to answer questions 16, 17 and 18.

When you are setting up a business, you will need to think about what the business will be called and about choosing a logo and branding the business. By creating a brand image, you communicate your business's personality to customers. The branding you choose should represent your business vision and values.

Business name

There are a number of things to think about when choosing a business name. You should think about what sort of impression you want to give when choosing a name. Do you want your business to sound professional or fun? Do you want it to explain what you do? For example, names like Sports Direct and Currys PC World give clues as to what the business sells.

You should also think about other businesses in the same market and the types of names they choose. Will choosing something very different set you apart? Or will it make people not trust you? For example, professional service businesses such as estate agents, solicitors and accountants often trade under the names of the founders or owners. If you were setting yourself up as an accountant and decided to call yourself 'Cook the Books', you could risk losing any potential customers to a more conventional-sounding business that gives a more professional impression.

Think about the future of your business. Are you likely to want to change or develop what the business does, for example? The Canned Soup Company sounds great until all your customers want to buy soup in cartons. So, think about whether the name will still work if the business changes.

Some names date and start to sound old-fashioned. For example, Carphone Warehouse was established when mobile phones were something used only in cars. Now the name sounds dated and doesn't really apply to the market. However, the company is so large and well known, they are unlikely to change it!

Think about whether the name will be easy to pronounce and spell, and how it will look on your letterheads, invoices, business signs and business cards. If you choose a name that is too long, for example, it may not fit easily onto signs or letterheads. If you choose a name that's difficult to pronounce, people will not understand what you are saying and will find it difficult to pass on your business name to others. If it is difficult to spell, it may also be harder to find in internet search engines, which could lose you customers.

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If you are setting up as an unincorporated business (not a limited company), then you do not have to register your business name. If you are setting up a limited company, you will need to register your name with Companies House and will not be allowed to choose a name that is already in use. Even where you are not setting up a limited company, it is a good idea to check the Companies House register to check that other businesses are not using the same name.

There are two reasons for this. Firstly, you may wish to become a limited company at a later date and would have to change your name if there is already a company with that name.

Secondly, it's possible customers will confuse your business with another business using the same or a similar name. You might also want to check local business directories and the internet to check that other businesses are not already using the name. Other places to check include sites such as Amazon, Etsy or Ebay if you are planning on selling through these sites, to ensure the name you are choosing is not already in use.

If you want your own website and want your business name as the domain name for your website (e.g. www.yourname.com), then you should use a domain name checker (e.g. www.123-reg.com) to make sure that the domain name doesn't already belong to someone else.

You are not allowed to use offensive words or words that imply something that isn't true. For example, to use the word 'Authority' in your business name might be misleading. If you are a limited company, you must use 'limited' or the abbreviation 'ltd' in your business name. If you are an unincorporated business, you must not use 'limited' or 'ltd'.



Did you know?

Lots of businesses simply use the name or surname of their owner as the business name. John Lewis and Sainsbury's are examples of these.

The benefits of choosing a good name for the business are:

- it is memorable
- it sets customer expectations
- it becomes part of the business brand
- it distinguishes the business from other organisations
- it works even if the business grows
- it works in other countries as well as the home country

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Knowledge Activity 17: Choose three existing business names that you think are good names for the businesses they represent. Explain what is good about the names and how they represent the businesses.

Business logo

A business logo is a symbol that represents your business. It will often be the first impression that people get of your business as it appears on premises signage, letter headings, packaging, products and anywhere else you choose to display it. It can be an abstract symbol, a drawing or illustration; it might be the business name using a specific font or a trademark that the business uses. The idea of a logo is that it is simple and instantly recognisable.

Most logos use a maximum of three colours, partly because this looks neater and more professional, but mostly because it cuts down the cost of reproducing the logo in print. However, with many small businesses printing their own letterheads and business cards from their own computer printers, and the increased use of electronic communications and advertising rather than paper-based, this is less of a concern.

Famous logos include Coca-Cola with its distinctive font, Shell petrol with the shell design, the Amazon arrow, and Apple’s apple. These logos are instantly recognisable, and we immediately associate them with the organisations and their products. The logo represents the brand image you are trying to create for your business. Colour can be important too and can help to build a brand across your products, premises and the business as a whole. Examples are the Cadbury purple and Coca-Cola red.



Did you know?

The Shell logo, whilst being instantly recognisable, has actually been re-designed a number of times over the years, starting out as a realistic drawing of a shell and moving to the more simplified, modern shape used today. The distinctive red and yellow colours are an important part of the brand recognition.

When thinking about logos, consider:

- the font, if you are using the business name or words – do you want a font that is businesslike and professional, simple and straightforward, or fun and quirky?
- whether there is a picture or symbol that represents your business, business name or products
- how you can use colour in your logo, and how many colours you should use – often, one or two colours give maximum impact
- what you are trying to say about the company, its values and what it represents



Knowledge Activity 18: Choose three recognisable logos, and explain what it is that makes them recognisable and how they make you feel about the companies/brands. Explain why you think the logos make you feel like this.

1.

2.

3.

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Brand identity

Your business name and logo are important parts of the business brand identity, but brand identity is much more than this. Branding is not just the material image of the business, but includes the way the business thinks and acts and the customer experience of the business.

Branding is what makes everything your business does recognisable to customers. When they look at premises, products, vehicles, packaging, letters, emails and websites, customers should know what business they are dealing with. Branding is the way you define your business; it's the core of your business, representing the values of the business and presenting the vision and image of the business to the outside world.

To build a brand takes time. You might start with the name, the logo and a set of products and services, but over time, brands take on a personality of their own, and you need to make sure it's the right personality.

When you are trying to build your brand, you should:

- Define your brand – decide what it is you are trying to do and what market space you will occupy. You might be solving problems, supporting lifestyles or helping fulfil dreams. You might be selling essentials to businesses or luxury items to consumers.
- Identify the business personality – a business will have its own personality, which includes ways of thinking, ways of behaving towards customers and others, and ways of doing things. This personality should be evident in everything the business does.
- Think about how you will build relationships with customers – most businesses want to build trust so that customers return again and again.
- Be consistent in how you deal with customers – make sure all the employees and all the company literature, websites etc. are consistent, using the same language, and saying the same things.
- Identify the business beliefs, and make sure the business represents these beliefs – for example, you might stand for good-quality products, excellent customer service, and friendly assistance. Make sure that everything the business does fits with this.

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Knowledge Activity 19: Choose one well-known brand. Research the company and look at how it presents itself. Make notes about the business personality, what it stands for, and how it makes you feel about the brand.



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Promotion options

Please read the following as it will help you to answer questions 19 and 20.

An important part of starting a business is letting customers know about it. The way businesses let customers know what they are offering is through advertising and promotion. Advertising can be expensive and, at least to begin with, your budget for promoting the business may not be very high so you need to choose your promotion options wisely.

First of all, think about your potential customers and what might be the best way to reach them. If your customers are local, consider local advertising, which is cheaper than national advertising. If customers are people with a specific job, hobby or interest, think about advertising in specialist journals. There are also many options for promoting and advertising using social media and the world wide web.

Options available to you to promote your business include:

- **Advertising** – locally, this might be in local free newspapers, local newspapers, or cards/posters in local shop windows or supermarket noticeboards. Advertising can be expensive, especially if you go national, and you need to choose the right publication to reach your customers.
- **Flyers** – flyers are printed leaflets advertising the business, which can be handed out in the street or (with permission) at a specific venue where you know customers might be; delivered with a local free paper; or delivered to houses in your target market area. Flyers are usually only feasible where your customers are in a specific area or place.
- **Exhibitions** – trade exhibitions or consumer exhibitions targeting specific interests, such as skiing or fashion, can be a good way to showcase your business. You pay for exhibition space. The organisers sort out tickets and promotion for the exhibition, and you set up a stand and are there on the day to talk to customers. It can be a good way to come into contact with lots of customers, but can be expensive.
- **Direct mail** – if you are lucky enough to have a list of names, email or postal addresses of potential customers, you could mail or email them with information about the business and its products or services. You might have a list from existing customers if you are already trading, for example, or might have permission to email the members of a local society, e.g. the local golf club if you are selling golf equipment. Bear in mind though, that many people simply bin 'junk' mail and some will be annoyed by it, so you need to use it carefully. You should only contact customers for marketing purposes if they have given permission for you to do so, in line with data protection regulations.

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- **Social media** – having a Twitter account or Facebook page where you and your customers can leave comments and reviews, and which customers can follow, can help promote your business, especially if you update it often with news items or tips that are of interest to your customers. Encourage other people to share and follow your pages – start with family and friends – and shout about your business on social media. These are good free ways to promote your business.
- **Websites** – create a website and make sure that people want to use it by keeping it up to date; making it easy for customers to use; and making it interesting with news items, tips and advice so that people come back to it again and again.
- **Business directories** – make sure people can find you on the internet. Internet marketing is all about being visible. It's no good having a great website if no one can find it. Add your business and website to Google's business directory – go to Google Business to find out how to do this. Find out about how to optimise your content to match what people search for. Sometimes it's a matter of including and tagging keywords. You can find out about searches and keywords by using internet tools such as Keywords Everywhere (<https://keywordseverywhere.com/>).
- **Network** – go to meetings, give talks and connect with other businesses. Networking with people will help to promote your business – many small businesses are promoted through word of mouth. People talk, so if you tell one person about your business, they might tell someone else. Joining the local chamber of commerce or similar organisation might help you link up with businesses who will buy your products or who sell complementary products and services and will recommend you to other people. Get yourself known in the community and your industry. You might support charity events or give a talk to a local society. Make sure that people know you and your business.
- **Business cards** – when you are networking, you need a quick and easy way to give your business details to someone. A good way to do this is through using a business card. This has your name, your position in the company, the company name and logo, and your contact details. Some cards might also say what the business is, if this is not obvious from the name and logo. For example, a business card might state 'hair and beauty' or 'business consultancy' under the company name, to make it clear what the business is all about.



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Graham's story

Graham has set up a business recovering, refurbishing and selling parts for Land Rovers. He lives in a rural area which attracts lots of walkers and tourists, and many of the farmers, tourist businesses and local people have Land Rovers to get around, especially off-road and in the winter months. As well as selling locally, he advertises on the internet. Graham is a Land Rover enthusiast and finds that networking with other enthusiasts and users is a good way to promote his business. After doing a talk to local farmers, he was invited to speak about how to maintain Land Rovers at a national conference. He's also popular at Land Rover events, where he finds giving free advice always generates sales from his workshop or website.

Promotional material

Please read the following as it will help you to answer question 21.

If you are creating promotional material for your business, you need to think carefully about the design and what you are trying to do. Business cards, for example, give minimal information about the business but have the name and contact details. A flyer will most likely have these details plus information about the products or services and any special offers. A website will give a whole range of information about the business, its products and services, and may also offer online purchasing.

Whatever promotional materials you choose, you should:

- use the business name and logo prominently
- make sure contact details are clear
- use the business colours – if you have some – to promote brand image
- make sure it gives relevant information
- don't give too much information on one page
- use a font that is easy to read and big enough to read
- think about what will attract your customers

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Knowledge Activity 20: Before you design your own promotional materials, it's a good idea to look around and see what other businesses produce. Find at least four examples of promotional materials from local businesses, and similar businesses to your own. Make notes about the materials here, explaining what they are, what they are designed to do, whether you think they work and what you like and don't like about them. This will give you ideas for your own materials.

Pricing

Please read the following as it will help you to answer questions 22 and 23.

Before you begin selling to customers, you will need to come up with a price for your products and services. One consideration for setting price will be how much the product or service costs and how much surplus you need to cover costs including to pay yourself a wage. However, even bearing this in mind, there are a variety of pricing strategies you could choose. Pricing strategies used by start-ups include:

- **Penetration pricing** – this involves setting a low price to establish sales and market share. The idea of this strategy is to tempt customers away from the competition. Some businesses may even choose to sell at below cost to begin with, raising their prices when they have established themselves in the marketplace. For example, new food products are often sold at a low price to establish a customer following.
- **Price skimming** – this involves setting the price high to begin with. It works where products or services have little competition or, for example, products have features that competitor products don't have. Price skimming is a limited time strategy as, when competitors enter the market with similar products, services or features, the price will need to be reduced to hold the market share. Innovative products such as electronic games consoles and products such as the Apple iPhone are often priced higher to begin with. The prices come down as competitors launch similar or better products.

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- **Premium pricing** – where you are selling a product or service that is perceived as better than the competition or is unusual, you may be able to set a price that is higher than competitors. Marketing methods such as celebrity endorsement can also make premium pricing possible. Designer clothing ranges generally use premium pricing. Clothing may be very similar to other brands, but people will pay for the designer name.
- **Loss leader pricing** – this strategy works with products or services that are linked with ongoing sales. The idea is that you sell the initial product or service at a low price (often at a loss) because it will tie customers into buying other products or services in the future. For example, razors are often sold at a special price but include only one or two spare blades, the theory being that buying the razor will tie customers into buying higher-priced packs of blades in the future. A service equivalent might be a financial advisor or solicitor providing initial advice for a fixed fee or for free, assuming that the customer will be happy to pay for the further advice that they need.
- **Competition pricing** – this pricing strategy involves setting prices in comparison with competitors. It involves researching what competitors charge for similar products or services, then pricing your own products or services at similar levels. This might be charging the same price, a little less to try and gain customers from competitors, or a little more by claiming that your products are slightly better. The main consideration for this strategy, though, is what your competitors are charging. For example, in a small town where there are several hair salons, the salons will probably charge very similar prices for services because customers will compare them.
- **Product lines, bundles and optional extras** – where you have more than one product or service you are selling, you may want to consider strategies that look at the range. Product line pricing is where different products from the same range are priced at different prices. For example, you might sell shampoo at £1.50 a bottle, and a matching conditioner at £1 to encourage customers to buy that too. Bundles are where you sell products together at a cheaper price so, for example, if people do buy shampoo and conditioner together, you might charge a bundle price of £2.25 to encourage buyers to buy both. Optional extras are things that are added on to the product or service for an extra cost. This is commonly used in the car industry, where you can add on leather seats, a better radio, special paint colours etc. to the basic model of vehicle.
- **Psychological pricing** – this involves thinking about the customer's perception of price. The most common example is offering something for 99p instead of £1, £9.99 instead of £10.00 and so on. The price – especially when compared to a competitor charging £1 or £10 – just appears to offer better value. Many businesses use psychological pricing alongside other pricing strategies.

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Harriet's story

Harriet has started a new business selling hand-knitted walking socks, which sell at different prices depending on size and the quality of wool used. She has planned a number of pricing strategies for her first year of trading. Firstly, she decides she will try to sell at a higher price than other walking socks. She thinks she will be able to achieve this, at least for a short time, because her socks are handmade from high-quality local wool. She knits to her own designs and uses unusual colour combinations that are fashionable as well as practical. Secondly, she decides to offer people the chance to buy two pairs for a slightly lower price, to encourage people to buy more pairs. Lastly, she is using psychological pricing to make the socks seem just that little bit cheaper.



Knowledge Activity 21: Choose an existing business you are familiar with and research product prices. Note down what pricing strategies they are using and why you think they are using them.



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Features of products or services

Please read the following as it will help you to answer question 24.

When you are describing your products or services in promotional materials or to customers, you will describe the features of the product that you think your customers will be interested in. The features of a product or service are the characteristics it has which help meet the customer needs. Features might include what a product is made of, or what the product or service can do. For example, features of your delivery service might be that it is fast and flexible; features of the coffee machine you are selling might be that it is stylish, easy to use and comes in different colours.

Customers won't necessarily want to know all the features of a product or service, and they may not want detail. For example, telling them that the coffee maker is made from specially made steel, which has to be machined using new techniques, is probably not something most customers will be interested in. They might like to know that it's made from hardwearing and washable materials though. The important thing when describing features is to identify key features that matter to the customer.

The key features of a product or service are probably the ones that provide the most benefit to customers. Along with features of their products and services, businesses often also identify the benefits that these give to customers because, after all, that's what customers are interested in. So, leading on from the examples we've just used, delivery benefits are that goods arrive quickly and can be delivered at a time to suit the customer. The benefits of the coffee machine are that it looks good in your kitchen, can be matched to your colour scheme and you can make coffee without any fuss. Identifying benefits is useful for when you are preparing promotional materials, as these can help you sell your product.



Knowledge Activity 22: For any existing product or service, write a description of the key (most important) features, explain why these features are the most important and explain the benefits to the customer.

Business location

Please read the following as it will help you to answer question 25.

A big consideration is where to locate your business. Does it need to be in a town centre, in the countryside, near other similar businesses or near to business suppliers, for example? There are a number of considerations when deciding on location but, with improvements in national and international communications, delivery services and trade links, the location of a business is not as critical as it once was.

Probably the most important consideration for businesses that operate from business premises is where your customers are. If customers need to come to you, then they need to be able to find you easily, get to where you are and get there easily. You need to think about transport links for your customers to get to you, and probably locate near to other businesses they may also want to visit. This might be on the high street or in a shopping mall, or near offices where people are working, for example.

You also need to think about what you are selling. Locating a clothes store on a busy street is a good idea, but a furniture and housewares store may need somewhere that has room for car parking, places for customers to pick up goods and room for delivery trucks. Think about stores such as Ikea, which are normally situated on large out-of-town retail parks.

Sometimes it benefits businesses to be close to other businesses selling similar products, especially where you believe you can beat the competition. Fashion stores are often located in the same street or close to one another, as customers looking for clothes often like to visit several stores before making a choice.

If you are selling on the internet, the location of your business won't matter to customers as goods will be delivered to them. You can locate your business somewhere that is convenient for some other reason, such as cheaper rentals or access to suppliers.

If you need specialist supplies of raw materials or services, you might want to locate your business in a place that's close to or convenient for suppliers. If you use delivery services on a daily basis, you need to make sure that there is a local depot that can provide services for you. Or perhaps you need a lot of space, in which case you will need to choose an out-of-town location. For example, you are unlikely to find a market garden in the middle of a city.

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Frank's story

Frank has started a dry-cleaning business. He thought very carefully about where to locate the business and, in the end, decided on a small retail unit based on an out-of-town retail and business park. This means it is close to a number of office buildings and popular shops, plus has convenient car parking. Many of his customers work in local offices, and others use the dry-cleaning service because it's convenient to drop off their cleaning when they come shopping.



Knowledge Activity 23: Choose two businesses in different locations. Describe the businesses and explain why you think they are located where they are.



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Summary

In this section, you have learned about:

- target markets for a business and how to define them
- how and why to use a SWOT analysis
- market research methods
- business names and logos
- branding for businesses
- methods of promotion
- pricing strategies
- features and benefits of products and services
- location considerations for businesses

Well done!

You have now completed Workbook 1 and should attempt the assessments. If you require any help or guidance, please contact your Assessor/Tutor.



CASH FLOW

PROMOTIONAL OPTIONS

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