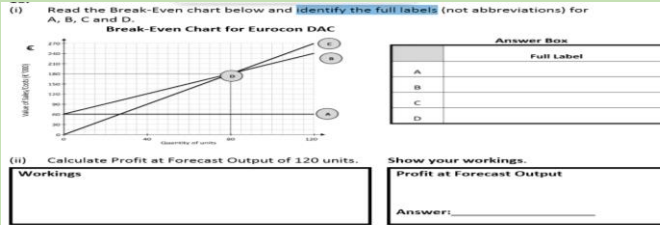


CHAPTER 13 – IDENTIFYING OPPORTUNITIES

PAST IDENTIFYING OPPORTUNITIES QUESTIONS

2019 - IDENTIFY THE FULL LABELS



2019 - IDENTIFY THE FULL LABELS

A = Fixed Costs
B = Total Costs
C = Total Revenue
D = Break Even Point

2019 - LIMITATIONS OF BREAK-EVEN ANALYSIS

1. The selling price is assumed to be constant regardless of output.
2. Breakeven analysis assumes that all stock is sold.
3. Fixed Costs will only remain constant over a small range of output and assumed constant on chart.
4. Profits are a function of not only output, but also of other factors like technological change, improvement in management, etc., which are overlooked in this analysis.

2019 - EXPLAIN THE TERM UNIQUE SELLING POINT (USP) AND PROVIDE AN EXAMPLE

A feature of the product/service which sets it apart from similar products/services and from its competitors. What you have that the competitors don't. The USP is valued by a customer and attracts them to the product.

Example
Camile - Healthy Fast Food

2019- ILLUSTRATE THE NEW PRODUCT DEVELOPMENT STAGES OF FEASIBILITY STUDY, PROTOTYPE DEVELOPMENT AND TEST MARKETING

Feasibility Study

This is an investigation to see if a product is profitable and possible. It identifies whether the idea should be produced. Feasibility can be assessed as marketing feasibility or financial feasibility
Reference: has to be manufactured in a way that the technology was affordable to sell. It also had to be possible to do all the functions promised

2019- ILLUSTRATE THE NEW PRODUCT DEVELOPMENT STAGES OF FEASIBILITY STUDY, PROTOTYPE DEVELOPMENT AND TEST MARKETING

Prototype Development

'mock-up' original of a product. It is manufactured to see any flaws in the design and to see if the product can be made. It allows the product to be changed/updated.
Reference: working at Prototype stage, also was manufactured to look sleek and professional look

2019- ILLUSTRATE THE NEW PRODUCT DEVELOPMENT STAGES OF FEASIBILITY STUDY, PROTOTYPE DEVELOPMENT AND TEST MARKETING

Test Marketing

This involves releasing the product to a small proportion of the market and obtaining their feedback. This allows the product to be improved before full launch.
Reference: released to a section of the market to see their opinion,

2017 - DESCRIBE THE STAGES IN THE NEW PRODUCT DEVELOPMENT PROCESS

Idea Generation - Initial ideas for the new product. They can be internal or external. Ideas may be generated by **brain-storming** sessions, market research or staff suggestions

Product Screening - Ideas are **vett**ed unworkable ideas are dropped, leaving the most viable ones for further examination and development. Careful screening helps businesses avoid huge expenses in developing ideas that are subsequently not marketable and ensures that good opportunities are not lost.

2017 - DESCRIBE THE STAGES IN THE NEW PRODUCT DEVELOPMENT PROCESS

Concept Development - This involves turning the idea into product or service that will meet the needs of customers. A **unique selling point (USP)** is identified which will differentiate it from competitors
Feasibility Study - This is carried out to assess if a product has potential. It looks at whether it can be produced technically (**production feasibility**) and if it will be profitable (**financial feasibility**). Will it meet government It seeks answers to questions such as, what demand will there be for the product; and can the business afford it (Produce it)

2017 - DESCRIBE THE STAGES IN THE NEW PRODUCT DEVELOPMENT PROCESS

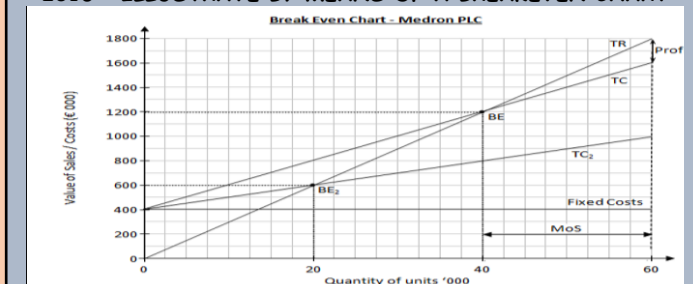
Prototype Development - This stage involves **developing a sample or model of a product**. It is produced to see if it can be made, what materials are required to make it and if it appeals to customers. It can be used to test the product to see if it conforms to certain standards and to determine what improvements can be made before deciding to go into full production.

NOTE - Remember to make reference to the Case study as part of your answers - It doesn't have to be a link

2016 - OUTLINE THE REASONS WHY BUSINESSES ENGAGE IN PROTOTYPE DEVELOPMENT.

1. Identify problems with the product and improvements that could be made/.
2. An opportunity to address engineering/production issues during the production process.
3. Determine if you can source the materials when required
4. To determine the financial cost of producing the prototype.
5. Develop a prototype for test marketing.

2016 - ILLUSTRATE BY MEANS OF A BREAK-EVEN CHART



CHAPTER 13 – IDENTIFYING OPPORTUNITIES

PAST IDENTIFYING OPPORTUNITIES QUESTIONS

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Break Even Chart)

Fixed Costs
Fixed Costs = €400,000

Total Costs
Total Costs = Fixed Cost + Variable Costs
Total Costs = €400,000 + (€20 × 60,000 units)
Total Costs = €400,000 + €1,200,000
Total Costs = €1,600,000

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Break Even Chart)

Total Revenue
Total Revenue = Units sold × Selling Price
Total Revenue = 60,000 Units × €30
Total Revenue = €1,800,000

These 3 figures are used to construct our Breakeven chart
Remember the point at which the Total Revenue line and Total Cost line intersect is your breakeven point

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Break Even Chart)

Break Even Point = $\frac{\text{Fixed Costs}}{\text{Contribution per unit}}$
Break Even Point = $\frac{\text{Fixed Costs}}{\text{Selling Price} - \text{Variable Costs}}$
Break Even Point = $\frac{€400,000}{€30 - €20}$
Break Even Point = 40,000 Units (Check with chart)

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Margin of Safety)

Margin of Safety = Units sold - Break Even Point
Margin of Safety = 60,000 units - 40,000 units
Margin of Safety = 20,000 units

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Profit at forecast)

Profit at forecast = Total Revenue - Total Cost
Profit at forecast = €1,800,000 - €1,600,000
Profit at forecast = €200,000

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Break Even Chart)

Break Even Point = $\frac{\text{Fixed Costs}}{\text{Contribution per unit}}$
Break Even Point = $\frac{\text{Fixed Costs}}{\text{Selling Price} - \text{Variable Costs}}$
Break Even Point = $\frac{€400,000}{€30 - €10}$
Break Even Point = 20,000 Units (Check with chart)

2016 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART (Break Even Chart)

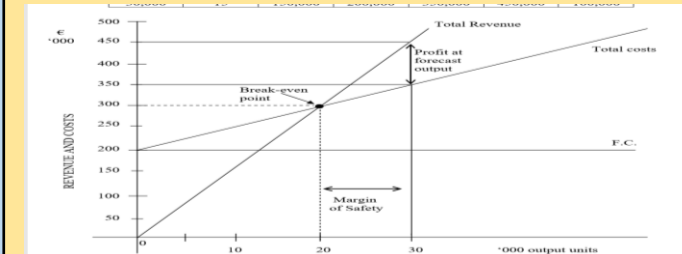
Total Costs
Total Costs = Fixed Cost + Variable Costs
Total Costs = €400,000 + (€10 × 60,000 units)
Total Costs = €400,000 + €600,000
Total Costs = €1,000,000

Fixed cost = €400,000
Total Revenue = €1,800,000

2016 – OUTLINE ONE LIMITATION OF A BREAKEVEN ANALYSIS

1. Break-even analysis assumes Fixed Costs are constant
2. It assumes that the business knows all its costs and can break them down into fixed and variable.
3. Variable costs may increase/decrease as output increases - economies of scale from bulk buying
4. Assumes that firm sells all its output
5. Assumes a firm sells all its output at a single price.
6. Ignores the effect that a change of price may have on sales-price

2008 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART



2008 – ILLUSTRATE BY MEANS OF A BREAKEVEN CHART

Fixed Costs
Fixed Costs = €200,000

Total Costs
Total Costs = Fixed Cost + Variable Costs
Total Costs = €200,000 + (€5 × 30,000 units)
Total Costs = €200,000 + €150,000
Total Costs = €350,000

Total Revenue
Total Revenue = Units sold × Selling Price
Total Revenue = 30,000 Units × €15
Total Revenue = €450,000

2008 – EXPLAIN THE TERM MARGIN OF SAFETY

Margin of Safety: How far estimated sales can fall before the firm becomes loss making. It is calculated by taking the breakeven point away from the Units sold

2008 – EVALUATE THE IMPORTANCE OF 'FEASIBILITY STUDY' AND 'PROTOTYPE DEVELOPMENT'

Feasibility Study This is a study carried out to assess the commercial and technical viability of a product. It looks at whether it can be produced technically and if it will be profitable/financially feasible and marketable. I

Prototype Development - A prototype is a sample/mockup or model of a product. The product concept is turned into a physical product. It is produced to see if a product can be made and what materials are required to make it. It can be used to test the product to see what improvements can be made

NEED AN EVALUATION - IN MY OPINION....

CHAPTER 13 – IDENTIFYING OPPORTUNITIES

IDENTIFYING OPPORTUNITIES

ADVANTAGE AND DISADVANTAGE OF RESEARCH

Desk	
Advantage	Disadvantage
Large quantities of useful information are available quickly and at a low cost	The data may be too general or out of date
Field	
Advantage	Disadvantage
More accurate and detailed information obtained	Face-to-face interview can be timely and costly

BENEFITS OF MARKET RESEARCH

1. It indicates the size of the market - If it will shrink or grow and information on its customers such as age, gender, income spending patterns
2. Identifies competitors - how well they are doing, strengths and weakness
3. Tests consumer reaction - to product price and packaging. What customer think of the name, image, price and what they want or don't want
4. Predicts Sales - estimate the likely level of sale thus the optimum level to produce
5. Reduce risk and saves money - failure

KEYWORDS

Market Research - is the process of gathering and analysing information about the potential market for a product. Proper market research = better chances of success

Desk Research - Is also known as secondary research. It means accessing information that has already been gathered by others. Can be obtained by sitting at a desk using books, reports, statistics.

Field Research - This involves gathering the business information directly from customers and competitors. It can be more expensive than desk research but can be very detailed

Idea Generation - This stage can come from the internal / external sources of new ideas. Using media reports, brainstorming and networking they looked for business ideas

Product Screening - This means sorting the promising product/services ideas from the weak ones. This is done from a detailed investigation and market research. Ideas could be classified as Unrealistic, Some potential & Worth investigation

Concept Development - The next stage is to develop the idea into a concept that will appeal to customers and different from competitors. This is known as Unique Selling Point (USP). It is a feature of a product that makes it attractive and distinctively different from its rivals.

Feasibility Study - This is a pre-investigation into how realistic it will be to produce a product, how much will it cost & How much profit could be made

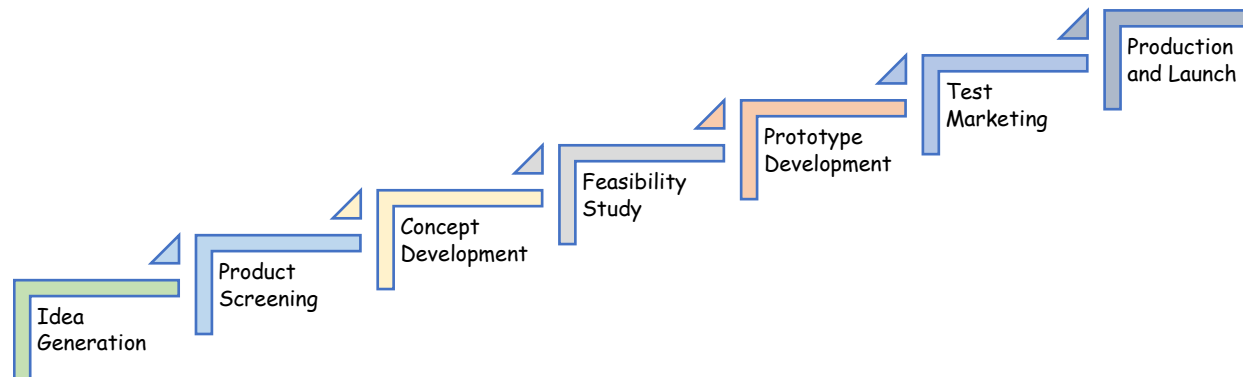
Prototype Development - This is a sample product manufactured on an experimental basis to see if the design idea works in practice and appeals to customers. It is a working model of the product

Test Marketing - This involves launching the product on a small scale to evaluate consumer reaction to it. Positive/negative reactions are then used to refine the Design, Price & Promotion of the product. Test Marketing is very important because launching a product/service can be very expensive and risky

Production and Launch - If a product idea is successful and has passed the testing stage then full scale production can begin. The choice of target market will determine The Selling Price, Where it should be sold & Best promotional strategy to use

Sampling - refer to interviewing a small group of people who are representative of the larger target market

IDEA GENERATION PROCESS



SOURCES OF MARKET RESEARCH

DESK	FIELD
Reports & Statistics - compiled by CSO and Enterprise Ireland	Observations - watching the behaviour of consumers How do shoppers choose between different brands
The Internet - Free information about business in World Wide	Customer Surveys - Involves using a questionnaire and asking customers about their attitudes towards new product ideas or existing goods or services
Newspapers & Magazines	Focus Groups
Experts - IDA and Enterprise Ireland	

INTERNAL AND EXTERNAL IDEAS FOR ENTREPRENEURS

Internal Idea	External Ideas
Hobbies and interests	Copy Ideas
Customer Feedback	Franchising
Market Trends -	Import Substitute
Staff Suggestions	Bring back ideas (Travel)
R&D	

CHAPTER 13 – IDENTIFYING OPPORTUNITIES

BREAK EVEN CHART

SUCCESS CRITERIAL

1. Calculate the Fixed Cost (Given in the questions)
2. Calculate the Total Revenue (Units sold X Selling Price)
3. Calculate the Total Costs (Variable cost (VC per unit X Units Sold) + Fixed Cost)
4. Draw your graphs - Apply SALT
Scale, Axis, Label, Title
5. When the Total Revenue line and the Total Cost line intersect this is the Break-even point
- Bring a line from this point down to the x-axis (Units) and the y-axis (Money)
6. Margin of safety is the difference between the units sold and the breakeven point
7. Forecast profit is the Total Revenue less Total Costs

KEY WORDS

Fixed costs - Are the cost that remain the same regardless of the number of products produced

Variable Costs - These are the costs that vary depending on how many units are produced

The Breakeven point - shows the amount of sales that must be achieved at a particular price in order to cover costs and break-even - Fixed Cost/Selling price - Variable cost per unit

The margin of safety - is the amount by which a firm's sales can drop before reaching the breakeven point. (Units sold - Break-even point in units)

Total Cost - is Fixed Cost + Variable Costs

Total Revenue - Selling price X units sold

Forecast Profit - Total Revenue X Total Costs

BREAK EVEN CHART (2011)

(i) Break Even Chart- Moore Ltd

CHARTS TO CONSTRUCT A BREAK-EVEN CHART

