

BUSINESS

Higher Level 2005

This booklet contains the following:

- 1. MARKING SCHEME**
- 2. NOTES ACCOMPANYING MARKING SCHEME**

The notes presented here are neither exhaustive nor complete. They are not model or suggested answers. Further points of information, illustration etc. presented by candidates are assessed and rewarded by the examiners on their merits.

**Leaving Certificate Business 2005
Higher Level Marking Scheme**

Section 1. Short Answer Questions (SAQ) (80 marks)

Questions	Marks assigned (10 marks per question)
1	4 + 3 + 3 marks
2	5 + 5 marks (2 + 3)
3	3 + 3 + 2 + 2 marks
4	2 + 2 + 6 at 1 mark
5	4 + 3 + 3 marks (2 + 2) and (2 + 1)
6	5 + 5 marks
7	5 + 5 marks (2 + 3)
8	3 + 3 + 1 + 3 marks
9	3 + 3 + 2 + 2 marks
10	2 (1 + 1) + 2 + 2 + 2 + labels 2 marks

Section 2. Applied Business Question (ABQ) (80 marks)

- (A) Enterprising Skills /Characteristics (5 at 4 marks) (1 + 1 + 2). Illustration from text of the ABQ. (Total 20 marks)
- (B) Human Resource Manager 5 points at 6 marks each (2 + 2 + 2). Must have reference to text of ABQ. (Total 30 marks)
- (C) Management Activities 3 at 10 marks (2 + 6 (3 + 3) + 2) (Link). Relevant to the text of the ABQ. (Total 30 marks)

Section 3 (240 marks)

Part 1. People in Business / Business Environment

Question 1. (People in Business)

- (A) Producer/Consumer Relationship 5 + 5 + 5 marks (2 + 3) (Total 15 marks)
- (B) Contract Termination 4 at 5 marks (2 + 3) (Total 20 marks)
- (C) Director Of Consumer Affairs 5 at 4 Marks + 5 evaluation (Total 25 marks)

Question 2. (Domestic/International Environment)

- (A) Sole Trader and Partnership 8 + 7 marks (3 + 3 + 2) and (3 + 3 + 1). Must Illustrate (Total 15 marks)
- (B) Community Development 4 at 5 marks (2 + 3) (Total 20 marks)
- (C) Social Responsibilities 5 at 5 marks (2 + 3) (Total 25 marks)

Question 3. (Domestic/International Environment)

- (A) Single European market opportunities and challenges 5 at 5 (2 + 3) marks. Must have at least 2 from either (Total 25 marks)
- (B) European Policy/European Institution 2 at 10 marks (2 + 4 + 4) (2 + 2) (Total 20 marks)
- (C) Global Marketing 3 at 5 marks (2 + 3) for expansion (Total 15 marks)

Part 2. Enterprise

Question 4. (Managing)

- (A) Notice and Agenda 10 at 1 mark. (Total 10 marks)
- (B) Communication 5 at 5 marks (2 + 2 + 1) Examples (Total 25 marks)
- (C) Maslow 10 marks (5 at 2 marks) and McGregor 10 marks (2 at 5 marks) (2 + 3) marks. Evaluation 5 marks (2 + 3) (Total 25 marks)

Question 5. (Managing/Business in Action)

- (A) Business Plan and Role 4 at 5 marks (2 + 3). Must explain Plan (Total 20 marks)
- (B) Finance for Expansion 4 at 5 marks (2 + 3) (Total 20 marks)
- (C) Reasons for Expansion (Not Profit) 7 + 7 + 6 marks (3 + 4) and (3 + 3) (Total 20 marks)

Question 6. (Business in Action)

- (A) External Sources of Ideas 1 at 7 marks (2 + 3 + 2) and 3 at 6 marks (2 + 2 + 2) (Total 25 marks)
- (B) (i) Chart showing the following:
FC 4 marks
TC1 4 marks Calculations Only
TR 4 marks (a) BEP 4 marks
BEP 4 marks (b) Profit 4 marks
M of S 4 marks (c) MOS 4 marks
Profit at Forecast Output 5 marks (Total 25 marks)
- (ii) Change to chart TC2 = 5 marks BEP2 = 5 marks (Calculations Only 5 marks) (Total 10 marks)

Question 7. (Business in Action)

- (A) Price 4 at 5 marks (2 + 3) (Total 20 marks)
- (B) (i) Advertising
(ii) Public Relations
(iii) Personal Selling
3 at 10 marks (4 + 4 + 2) (Total 30 marks)
- (C) Market Segmentation 10 marks (5 + 5 marks) (2 + 3) (Total 10 marks)

NOTES ACCOMPANYING MARKING SCHEME

SECTION 1. Short answer questions

1. Capacity to Contract

The parties to a contract have to have the capacity to make the contract. All natural persons, (human beings), and legal/corporate persons, such as companies, have contractual capacity.

The following normally do not have the capacity to contract:

- Infants (those under 18 years of age).
- Persons under the influence of drink or drugs.
- Insane persons.

These people are all deemed to be incapable of making valid contracts ie they do not understand fully what they are doing and if they do enter a contract then it is void. The contractual capacity of a company is laid down in the objects clause of the memorandum of association of the company. If the company acts beyond these powers, e.g. gets involved in a business activity not permitted in the memorandum of association, then it is said to be acting 'Ultra Vires' and the contracts are void.

2. Risk Management

To have a planned approach to the handling of the risk that the individual or business is exposed to. It involves:

- The identification of all liable risks eg the risk of fire, employer negligence, etc.
- The causes of loss eg. personal injury, legal liability etc.
- The risk of the event occurring must be measured.
- Management of the costs. Calculate the costs of the methods of protecting from loss.
Reduce risks by Insurance, Safe procedures, Training of personnel in health and safety.

3. Household and Business Activities – Common

Taxation. Both households and businesses must pay their taxes to the State so income tax/PRSI is common to both.

Official Forms. Income tax forms, insurance proposal forms.

Decision-making. Buying and selling, choosing between alternatives.

Management activities. Planning, organising and controlling.

Raising Finance. Purchase of assets, working capital.

Communications. Downward, upward, laterally.

4. Organisation Structure

		Board of Directors		
		Managing Director		
Research and IT	Production	Finance	Marketing	Human Relations
Scientists	Engineers	Accountants	Sales Personnel	Administrators

5. Problems of e-mail

Technology availability

Data security

Business contracts

Audit trail

Authenticity

Negligence - liability

Incorrect address or data

Viruses

6. Limited Liability

The shareholders or members of a limited company enjoy the legal status of having

limited liability. The extent of financial loss that can be suffered, in the event of the company being wound up, is limited to the amount of the investment made at the start, i.e. the amount of the share capital held by that shareholder. The shareholders cannot be requested to pay more than the value of the shares registered in their names. There can be no further liability due which means that the private assets of the shareholders cannot be used to discharge the debts of the company.

7. Insurance Principles

Utmost Good Faith: (Uberrimae Fidei)

All material facts must be disclosed to the insurer. A material fact is one that would influence the insurer into either accepting or rejecting the risk, or in setting the premium. This means that all the information that might have a bearing on the decision to enter the contract must be supplied on the proposal form even if the information is not requested. The insurer can declare the contract void and claims made by the insured can be refused if all the facts are not disclosed.

The Principle of Indemnity

An insurer indemnifies the person taking out the insurance against a loss happening. There must be no profit from insurance, only recovery of the actual loss. The contract is for the reinstatement of the actual property insured, i.e. putting the claimant in the same position, as far as is possible, as was the case prior to the accident or loss. The amount for which the asset is insured is usually the cost of replacing it. The amount of the total sum insured is not relevant if there is over-insurance since the insurer will only make good the actual loss that occurred. If there is under-insurance on the part of the policy holder then the concept of average will apply and only a proportion of the loss will be paid.

8. Asset Test Ratio

Current Assets – Stock/Current Liabilities

2004	2003
(90,000 – 20,000)/60,000	(85,000 – 25,000)/40,000
7 : 6	6 : 4
1.17 : 1	1.5 : 1

Improving/disimproving

Debtors increased

Bank overdraft Increased

Creditors increased.

9. Qualities of Types of Production

Unique Products	Job
Groups of Products	Batch
Highly Skilled Direct Labour	Job
Expensive products	Job

10. Illustration of given information in Bar Chart form.

SECTION 2. Applied Business Question (ABQ)

(A) Enterprising Characteristics/Skills

- Control. Entrepreneurs usually need to be in control of situations. They are independent and have a need for achievement. Ambition to succeed.
- Risk taking. Successful enterprising people are not afraid of failing. They can take both financial risk and personal reputation risks.
- Shareholder/Investor.
- Flexibility. Enterprising people accept change as natural. They learn from mistakes and failures and are always checking feedback to see if the job can be improved. Their self-imposed standards are high. Embrace new and promising technologies. Flexible with customers.
- Confidence. Enterprising People have high self-image and self-confidence. They look for solutions rather than problems. They like to get things done by the most efficient ways. Specialised department set up.
- Realism. Enterprising people are very realistic. They are honest with themselves. They choose things that are achievable rather than desirable all the time. Entrepreneurs accept what can happen and do not go for the impossible.
- Decisiveness. Enterprising people have the ability to make quick and clear decisions and take responsibility for the actions and decisions they make. If a decision is a bad one then they accept the result without blaming other people. Set up Circuit Limited.
- Determination. They do not give up easily due to obstacles and failures. They are determined at tackling problems and succeeding at the task on hand. They cope with disappointments on the way to success and can take setbacks regularly. Redeployment of staff. Work late at week ends.
- Leadership. Enterprising people are good leaders. They can get people to work together in teams and motivate people to see opportunities and use the opportunity to everyone's benefit. Take on employees.
- Energetic. Enterprising people are not lazy people. They are 'get up and go' and hard working people who stick at a task until it is completed.
- Innovation. New ideas. Recognise change approaching. New and promising technologies.
- Risk management. Reduce all risks. Personally handled recruitment. Few Health and Safety problems or issues.
- Planning and goal setting. Future oriented- short, medium and long. Future vision. Tender for high margin contracts.
- Time management. Tasks importance related to time invested in it. Work and family.
- Delegation of authority, responsibility and accountability. Training to all employees.
- Seeking and using feedback. Listening and remediation. Loyalty and honesty.
- Problem solving. Recognised impending change.
- Stress management. Redeployment with retraining
- Human relations. Paid Trade Union rates. Few industrial relations problems.

(B) Functions of HRM and relate them to Tom and Circuit Ltd.

· Manpower Planning

Manpower planning involves examining the human resource needs of the organisation and ensuring that they are met. An audit of existing employee skills and expertise may be conducted. Plans for the future are laid and employee development programmes designed. Redeployment of staff.

· Recruitment and Selection of Employees

Personnel in an organisation change for many reasons, e.g. retirements, transfers, illness, resignations, promotions, maternity leave, etc. For this reason the HR specialist must maintain a supply of personnel to meet all requirements. Personally handled recruitment. Take on employees.

· Training and Development

As organisations and people change over time, all personnel must be ready to meet the challenges of changes in the market place, among competitors, in technology applications and products. Personnel are helped in this area with programmes of training and development. Training to all employees

· Performance Appraisal and Review

Most organisations now relate reward, ie salary scales and bonuses, to how the employee performs in the organisation. The design and development of appraisal systems is now a central function of HRM, ie putting a value on employee performance. Loyalty commitment and honesty rewarded with bonuses.

· Industrial Relations

Industrial relations are the relations existing between employers and employees on such matters as pay and conditions of employment. Negotiations must take place between the parties, not only on pay, but also on complaints, grievance and disciplinary procedures and on issues like redundancy, early retirement and dismissal. Few industrial relations problems.

· Employee Health, Safety and Welfare

The implementation of the various health and safety regulations in the workplace together with interest in, and support for, the social and recreational needs of employees, e.g. sport and social clubs, has a very positive effect on employee morale. Few Health and Safety problems.

· Monitoring General Employment Conditions

Since the main asset of all organisations is its workforce, particular care will be paid to maintaining the attractiveness of working for the organisation. Care will be taken to reduce the risk of key personnel leaving and avoiding high labour turnover difficulties in general. If the market rate of pay is not offered then new, talented employees will not work for the organisation; they will leave and work for other organisations. Loyalty and paid Trade Union rates.

· Pensions Administration

The Human Resources Manager will be the contact through which pensions will be arranged.

(C) Management Activities

Planning

Planning involves selecting organisational goals or objectives and seeking out ways to achieve them. It sets out what to achieve and how to achieve it. The targets to be aimed at. The main objective is to survive and be profitable while meeting the needs of customers. Plans reduce risk and uncertainty and give an organisation purpose and direction. Planning is a method of looking ahead to the future that helps us to make decisions.

By going through the planning process (or method) stage by stage an enterprise gains greatly because:

- All people in the enterprise have a say in the development of the plan. They will have looked at all the opportunities and threats. The plan is therefore clear, and agreed.
- Change is viewed as normal and emphasis is placed on seeking out new opportunities.
- The planning process demands that the most important factors for the enterprise are identified. The best people can then be put in charge of that particular job to give the maximum chance of success.
- Decision-making becomes common. All options have to be considered.
- The control of the enterprise is improved. The plan for the future is agreed so it is likely to be realistic and achievable. The plan can be altered to meet the targets set.
- Business planning helps organisations look ahead to the future and cope with change in use of technology, new products, society and competitors etc.

General objectives (aims) for a business enterprise would have to be set out in the following areas: Profitability, Market standing, Product development (innovation), Quality, Employee performance and development, Physical and financial resources and Public responsibility.

Strategic Plans

Strategic plans are developed over the long term. Long Term Planning covers one to five years into the future. Strategic planning requires an examination of the organisations strengths, weaknesses, opportunities and threats in the interest of achieving objectives.

A Mission Statement. The purpose of the organisation ie what it was set up to achieve.

The plan looks at existing practices, deciding on the action to be taken and the setting of a timescale for completion.

These plans can be:

- internal eg good people, lots of work, good suppliers etc.
- external analysis eg trends affecting building business, what the competition are up to, government proposals that affect the industry etc.

Tactical (or Operational) Planning

Tactical planning applies to periods of one or two years, ie the short term day-to-day operations of the business. Decisions are made for the short term. Tactical planning is action planning, involving more doing than thinking eg management accounting, human resource management functions, purchasing of raw materials, stock, production and quality control etc.

Policies

Policies are the expressed means (or methods) employed by an enterprise to achieve objectives. A 'policy' guides the decisions and actions of people in the enterprise. It may list procedures to be followed and provide recommended methods and standards of work.

An example of policy could be regarding production which might involve producing the product in a specific environmentally sound way.

Marketing policy, e.g. distribution of the goods by self-owned trucks, advertising goods on a specific medium, giving credit to certain groups of customers etc.

Purchasing policy, e.g. purchasing raw materials from specific types of suppliers.

Organising

Building a structure in an organisation so that its activities are co-ordinated and its objectives are achieved. Possible structures are line organisation, line and staff organisation and matrix structure.

Build project teams to start and finish specific projects.

The formal structure of an organisation is the agreed method by which its activities are coordinated so that it has the best chance of reaching its objectives.

§ Successful organisations give themselves a structure within which they organise themselves. Somebody must take the responsibility for completing the many jobs to be done. A structure that meets the needs of the people in the organisation is the best one.

§ An 'organisation chart' shows how an organisation expects to get things done. The structure will therefore start with those people who are in charge, Moving downwards from these heads of departments to each lower level of responsibility are subordinates, who may themselves have other subordinates lower down.

§ Line Organisation

An organisation that is divided into departments made up of line activities ie activities essential for the survival of the organisation eg. Finance, Production, Sales and Research and Development.

§ Line and Staff Organisation

Where a staff function is added on to the existing line activities. New departments are created which have specialist expertise to help the line departments function more effectively. The work of the staff functions is mainly an advisory and support role eg HRM, ICT, Legal, Distribution, and others which cut across other departments.

§ Matrix Organisation (Project team structure)

This is a team based approach to problem solving. The emphasis is on joining together many disciplines in the interest of completing the project. A highly co-ordinated approach to problem solving eg areas of new product development or major construction jobs where many experts are required and where their work must be co-ordinated. A team leader controls the project and time is used efficiently thus reducing costs. It allows for good professional development of managers because of the wide responsibility and exposure.

Controlling

The activities that measure the deviations from planned performance and takes action to correct them. Expected targets to be met.

- Stock. Optimum stock levels. JIT
- Quality. Reliability. Customer support
- Financial/Budgetary. Train office staff.
- Credit Control. High margin can often entail high risk.

SECTION 3. Part 1

Question 1

(A) Producers

Producers/suppliers are the makers, manufacturers and suppliers of goods and services. The producer is interested in making a profit but will only be able to do so if the consumers are satisfied with the product. The producer will make goods that satisfy consumer wants and needs, e.g. cars, domestic appliances, etc. The producer may also make goods which are used in a production process to make other goods. In both cases satisfying the consumer is vital. The interests of consumers and producers are sometimes in conflict because the consumer wants low prices and high quality while the producers want high prices and profit. Producers must know: What product to produce. What quantity of it to make. What to charge for it (the selling price). The group of customers it is being produced for (the target market).

Consumers

Consumers are the purchasers or users of goods and services supplied by firms. Consumers can be individuals or other organisations. They are often businesses who are in competition with other businesses but all consumers try to satisfy their wants by buying products and services that are: of good quality, reasonably priced, available when required and provided with good after-sales service. Individual consumers usually buy goods like food and durables (eg televisions, DVD players) etc. Business enterprises buy raw materials or goods for stock which they sell to other consumers. The Government and its administration purchase all types of goods and services. The success or failure of an enterprise depends on whether consumers are loyal to the business. If consumers like a product and become used to it, then often regardless of changes made to it, they will continue to buy it. That is why a business enterprises that wishes to remain in business will pay close attention to consumer needs. Use can be made of market research, for instance, to get a regular reaction to products and services from a consumer group. The information from the consumer group will then be used to make decisions about the product.

(B) Termination of Contract

A contract is said to be terminated (ended) when all the responsibilities and obligations that arose under the contract and all rights that existed under the contract are extinguished. A contract may be terminated:

By Performance

A contract is terminated by performance where the undertaking given in the contract has been performed exactly as was promised by the parties to it ie. that whatever was agreed to be done was done.

By Agreement

The parties may agree to end a contract because of:

The operation of one of the terms of the contract, eg where a term provides that the parties mutually agree to the termination or where a certain period of notice is given.

By the making of a further, later, binding contract by the parties. A completely new contract now exists and the parties agree to give up their rights under the old one. All obligations can be released by agreement of the parties.

By Breach

If one of the parties does not perform his/her side of the bargain ie does not honour the promises made, the contract is said to have been repudiated. The party is in breach of the conditions agreed. The second party has the right of action in the courts against the first party who caused the breach.

By Frustration

There is a basic general rule which states that a party to a contract will not be allowed to get out of their contractual obligations simply because the contract is more difficult to perform due to some unforeseen event. The possibility of all events happening should be set out in the contract. Performance however may sometimes be impossible because of something completely outside the control of the party, eg a war or a fire where the goods that are the subject of the contract are completely destroyed. The contract becomes impossible to perform since the object has been destroyed. Also the death or serious illness of one of the parties to the contract may hinder the performance of the contract or a change in the law

could make the performance of the contract illegal. In these cases the contract is terminated by frustration.

(C) Director of Consumer Affairs

The office of the Director of Consumer Affairs was established to review the practices under the Consumer Information Act 1978. The office is completely independent. Its functions include the following:

- To promote good advertising.
- To view advertisements in general to ensure compliance with the law.
- To receive and investigate complaints.
- To examine particular advertising practices.
- To request advertisers to cease advertising. If the request is not heeded, to apply to the High Court for an injunction to force the advertiser to stop.
- To request that an advertisement be altered.
- To prosecute offenders in court.
- To monitor other legislation and EU consumer directives.
- To encourage and promote the use of codes of good practice, e.g. The Code of Advertising Standards for Ireland.
- To publish an annual report.
- To inform and educate public opinion on consumer matters.

Question 2

(A) Sole Trader

A person who runs a business enterprise under his/her own name, e.g. Marian Kelly, or under a business name, eg MK Electronics is regarded as a sole trader. Examples of sole traders are retail outlets of many kinds such as local shops, garages, restaurants, electrical retailers, etc. and also tradespeople such as plumbers, electricians, carpenters and hairdressers.

Advantages

There is a greater self-interest on the part of the owner. The proprietor or owner will either make a profit or a loss and is therefore encouraged to make greater efforts to succeed in the enterprise. The owner has more in-depth knowledge of the business. The business owner can make quick decisions. There is no need for regular meetings with other people. When business is small, the sole trader maintains very close contact with employees and customers. Better relationships with these important groups result. Because a sole trader is very easy to establish formation of the enterprise is both quicker and cheaper than other forms.

Disadvantages

The control and management of the business enterprise may fall on the shoulders of one person. There is less capital available for expansion in the future. The owner must bear all the risk of possible business losses and is personally liable for all debts of the enterprise in the event of it having to close down. Long illnesses and the taking of holidays cause problems for sole traders. The retirement or death of the sole trader may mean that there is nobody to take over the enterprise - continuity of existence of the business. There is a taxation disadvantage for the sole trader - income tax at the personal rate (42% at the moment) as compared to the Corporation tax rate (30 to 40% currently).

Partnerships

A partnership can be said to exist where two or more people (up to 20) run a business enterprise in common with a view to making a profit. A partnership can be viewed as an extension of the sole trader model but with more people involved. It is advisable that the partners have their agreement in writing in case conflicts arise.

Advantages

The easier availability of extra or more adequate capital.

The people in the partnership may have varied and specialised expertise which they make readily available for the efficient running of the enterprise.
Group decision-making. This should result in better decisions.
Partnerships can be expanded without difficulty by simply adding new partners up to the maximum of 20 set by law.

Disadvantages

If the financial resources of the partners are small then the problem of the lack of access to capital remains.
With any group of people will come differences of opinion and possible disharmony.
Responding to change quickly and adjusting to new situations and demands made on the business requires co-operation and consultation on the part of the partners.
Partners have unlimited liability for debts, just as in the case of a sole trader.

(B) Community Development Organisations

For any local economy to thrive, the people who live in it and have a stake in its future must also actively promote and develop ie. to cause to grow and expand it at every opportunity. Projects are undertaken for the benefit of the community and provided by community-based groups eg community councils, educational establishments, clubs etc. When the term local community development is used, it means that groups of people, help themselves and their communities to set up new enterprises, schemes, projects etc. and improve the local social and economic infrastructure of their areas.

Examples of these are:

Leader 2

County Enterprise Boards

FÁS

Community Partnerships, County Development Boards and Business Innovation centres.

They provide services such as:

Grants, Training of personnel, Mentoring service, Business Planning, Marketing, Product Development, General Information and advice on how to set up and develop a business idea.

(C) Social Responsibilities

Opportunities

Cost Reductions. The use of clean technologies and systems in production and consumption offers business the opportunity to reduce costs associated with older, dirtier and less efficient production methods. The systems are safer and insurance premiums should go down and the business become more cost effective.

New Business Possibilities. If the technologies and methods used by the business to reduce or treat waste are developed by the business itself, then they may offer new business opportunities. These new products or methods may be sold on a commercial basis to other businesses to control their waste. The opportunities to develop profitable new products will be lost if the business does not bother with environmental issues.

Green Consumers. If the enterprise's consumers are influenced by environmental issues, new market opportunities may open up if the image is good. Important corporate customers may require environmental audits and high standards for the use and disposal of products before doing business.

Employees. A positive, constructive and sensitive attitude by the business to environmental issues is good for employee morale. Employees cannot be expected to work in dangerous conditions. People like working for an organisation that is mature and caring in its attitude to the workforce and to the community at large. Good morale, of course, creates loyalty and efficiency and bad morale creates high labour turnover and regular conflict.

Financial Institutions. Investors, such as financial institutions, are also sensitive to environmental issues and regularly have them as conditions on the availability of funds. There are risks for financial institutions who now require more information from businesses on the environmental impact of capital expenditure plans, the effects on profits, any potential liabilities, etc. Good environmental control systems usually mean improved access to capital.

Costs

Greener Competitors. Any business that neglects the development of products with high environmental performance will not have a high profile in green markets. It may lose out to a more environmentally sensitive competitor.

Publicity. Bad publicity and possible damage to the image of the business, not only locally but nationally and internationally also. Everyone will have access to an enterprise's record in the environmental area. There is wide general concern on the issue of environmental care. A perception that the business is not committed to environmental issues will not be welcome by the public.

Cost Increases. There are high costs associated with addressing environmental issues in business especially in terms of management time, the required additional investment and operating costs such as required changes to production methods to meet environmental demands.

Prison and Fines. The Environmental Protection Agency (EPA) has the power to seek fines of up to £10m and prison sentences for environmental pollution. The EPA could certainly bring the offenders to court and the risk and expense involved in this is high.

Delays. One of the EPA's functions is that of issuing integrated pollution control (IPC) licences for industrial processes with pollution potential. These licences cover all aspects of air, water, waste and noise pollution for the business and must be received before production can take place. Costly delays may apply to new plant approvals, etc. if environmental standards are not adequate.

Question 3.

The Single European Market

- Removes customs duties and barriers to trade in the member states.
- Facilitates the free movement of goods, services, finance (capital) and people around the EU.
- Thousands of administrative forms which the member states have accumulated over the years are eliminated.
- Increased competition provides new opportunities for creating jobs and a wider supply of cheaper products for consumers. There is a reduction in unit costs of production due to the increase in levels of production.
- The harmonisation of taxes throughout the EU ensures that competition is not distorted eg VAT rates and excise duties are approximated between member states and thus EU expenditure through the structural and cohesion funds is increased
- Business risks are reduced because of reduced dependence on the domestic market.
- Economies of scale are made possible by the creation of a huge EU domestic market which in turn increases the competitiveness of the business in world markets.
- There are lower research and development costs for business because of the lengthening of production runs.
- Product life cycles are longer because of the larger market.
- Non-traded industries, eg construction and services, may quote for all public contracts in the EU. This is known as public procurement.
- Specially designed products/services necessary to meet special national standards are no longer necessary.
- There is Union-wide registration and protection of patents, trade marks and copyright (intellectual property) that enables the modern innovations of Irish high-tech businesses to be safeguarded and marketed more easily, quickly and cheaply.

Opportunities and Challenges of the EU enlargement

The growth in power and influence of the EU (the European trading bloc). The Union has a common commercial policy, an internal market with free movement of goods, capital, services and labour and a common external frontier. It is now made up of 25 countries.

The new members of the EU enjoy all the economic privileges that membership entails. The focus of the EU now spreads eastwards to Poland and beyond.

Political Changes. The previous Iron Curtain countries of the Czech Republic, Hungary, Slovakia, etc. have opened up their economies to market forces. This presents a particular challenge for Ireland as these countries are excellent producers of agricultural products and offer quality at a lower price to the European consumer.

Deregulation. The highly regulated and centrally controlled economies of Eastern Europe are all being transformed into market-led economies. The central control that the governments had over the economies is gone. The new outward looking privatised economies are offering many opportunities to private enterprises both within the countries themselves and their trading partners. The change from a highly regulated economy to one of deregulation and free enterprise has created huge demand for a wide range of goods in these economies.

The Market Opportunities. The market opportunity of Eastern Europe is significant, especially when one considers the population structure. The eastern European market, being potentially large and lucrative, bigger even than the original EU market, offers opportunities to business enterprises from the west. There is a significant shortage of goods and services such as: Home appliances, Home entertainment, Construction and Communication services, Private and commercial transport vehicles and Leisure/entertainment facilities etc. A particular advantage that Ireland has is that there is a powerful demand in these countries for English speaking workers and many language schools are now operating in Ireland to provide tuition in English.

Employment. The free transfer of workers and the recognition of qualifications across country boundaries has facilitated emigration and immigration to and from these countries.

Property buying. Purchase of holiday and retirement houses and apartments across all EU states is much easier than before and is an attractive option for many Irish citizens: conversely other nationals can purchase property and land in Ireland.

(B) EU Policies

The Common Agricultural Policy

The Common Fishing Policy

Competition Policies

EMU

The Social Charter.

The Common Agricultural Policy (CAP)

The Common Agricultural Policy is based on three principles. They are:

The unity of the market. All agricultural products move freely in a single agricultural market.

Financial solidarity. This means that the EU will continue to finance the CAP.

EU preference. Products from the EU will be given preference.

The impact of the CAP on Irish agri-business is protectionist in that farm food prices are fixed at a minimum by the EU. Marginal producers are being encouraged by financial incentives to concentrate on more viable options.

Because of the CAP, the member countries of the EU are self-sufficient in most basic food products.

This is no mean achievement since there are 300 million people to be fed each day in the EU. The ten million farmers in the EU are among the most productive in the world. In fact, the EU has not only achieved security of supply in food for itself but is also a major exporter and supplier of food to world markets and the developing world.

A system of direct payments to farmers has been introduced to control production to the benefit of all the EU's farmers. Farmers are encouraged to make use of lessintensive production methods thus reducing production and the risk of surpluses and at the same time make a positive impact on the environment e.g. policies like 'set aside' where land is not put into production or the RuralEnvironmental Protection Scheme (REPS) where payments are made for the maintaining of farms in an environmentally friendly manner.

The Common Fisheries Policy (CFP)

The Common Fisheries Policy (CFP) is an EU policy just like the CAP with common rules throughout the EU covering all aspects of the fishing industry. The following are the main provisions:

- Access to Fishing Grounds

Access to coastal waters is reserved for fishermen from local ports to a distance of 12 miles off-shore. This exclusion is necessary to prevent foreign boats from over-fishing the areas. There are also protected areas where fishing is restricted in an effort to protect fish breeding grounds, e.g. the Shetland Box off Scotland.

The EU is allowed to define where fishing is banned or restricted and all EU boats must be licensed to fish.

- Conservation of Fish Stocks

This policy is designed to protect fish stocks from over-fishing. Young fish catches are reduced, the mesh size of nets is regulated and limits on different fishing seasons.

- Monitoring Fishing Activity

The responsibility to ensure that all the rules are applied rests with each member state. To help with this, the EU provides aid for the purchase of fishery protection vessels and aircraft for the authorities. Skippers must keep log books of catches and fish landings at ports. Large fines, confiscation of fishing gear/crafts are the sanctions for breach of rules.

- Marketing of Fisheries Products

This policy is similar to the CAP in that it is designed to stabilise the market, guarantee a steady supply of products, have reasonable prices for consumers and support fishermen. There is what is called a withdrawal price below which fish are withdrawn from the market and not sold.

EU Competition Policies

The competition policy of the EU aims to:

- Ensure that the best guarantee of the consumer of getting quality goods and services is to have a number of suppliers competing for the business, ie the existence of competition among suppliers.

- Have rules to ensure that businesses operate on a fair basis and that customers benefit.

- Restrict businesses from forming anti-competitive cartels to share markets between them or to keep prices artificially high or block newcomers from entering the market.

- Concentrate on countering monopolies by imposing large fines, e.g. up to 10% of total turnover, which act as both a deterrent and a punishment. Positive efforts to control business with dominant positions.

Institutions of the European Union include the following:

The European Council

The European Parliament

The Council of Ministers

The European Commission

The Court of Justice

The Court of Auditors

(C) Global Marketing

A global business attempts to sell one product in the same way worldwide, focusing all the time on the similarities found across the markets. Globalisation means that the world is increasingly becoming one large marketplace. A global business identifies world markets for its products and then produces for that global market.

§ It plans and co-ordinates all activities on a global basis.

§ It purchases the factors of production and sets up its assembly and manufacturing facilities in any geographical location in the world, and usually in a number of different countries.

§ Savings in research and development, distribution, transport, marketing and finance are sought out anywhere they can be found to ensure that costs are reduced and economies of scale are achieved in purchasing and manufacturing operations.

- § Examples of global businesses include: Ford, Microsoft, Nike.
- § Global businesses do not consider the differences between countries and cultures important. They put all their efforts into satisfying the common desires and drives of people everywhere - global standardisation. They tend to sell one product in the same way worldwide, focusing all the time on the similarities found across the markets.
- § Global marketing. Products are globally marketed under a common world brand name, like Coca-Cola, McDonalds hamburgers, Sony Walkman, IBM, Apple.
- § Not only is a brand like Coca-Cola found everywhere but the actual product itself is exactly the same in every market, ie global standardisation of both brand and product, e.g. standardised CD players, televisions, etc.
- § Cost efficiencies are turned into value for consumers. Reliable, high quality products are made available at lower prices. Thus increasing consumption and driving further demand.
- § The markets of the world are not totally homogenous, ie they are not all of the same composition and nature. This fact requires that products must vary to suit the various markets (product adaptation). The brand might prove to be global but customisation may be needed for the product to meet particular country requirements eg left or right hand drive motor vehicles, different electrical and TV transmission standards, local tastes, etc.

Part 2. Question 4

(A) Notice and Agenda AGM youth Club

Notice is hereby given that the 20th Annual General Meeting of Deagóirí Youth Club will be held in the Clubhouse at Second Street, First Avenue, Waterford on the 11th of July 2005 at 8.00 pm.

The Agenda for the meeting will be as follows:

1. Minutes of the 2004 AGM as previously circulated
2. Matters arising from the minutes
3. Club Chairperson’s Address
4. Club Secretary’s Report
5. Club Treasurer’s Report
6. Club Subscriptions for 2005/2006
7. Election of Officers
8. Election of Executive committee
9. Proposed amendments to the Club’s constitution.
 - A.....
 - B.....
10. Any Other Business with the permission of the Chairman.

Kevin Mannix
 Club Secretary.
 Date 16th June 2005.

(B) Communicating

Communication is concerned with the transferring of ideas, information, messages, etc. from a sender to a receiver with the main purpose being the understanding by the receiver of the sender’s message. Good communicators make use of all the forms to ensure that the messages transmitted are both clear, understood and acted upon.

Effective Communication

For communications to be effective and successful there must be no barriers to the process.

Unfortunately, both people and situations cause some barriers to be built up.

An organisation needs to be aware of common barriers to effective communications:

1. Noise. ‘Noise’ is any interference from outside the process, which leads to messages being misunderstood or in some cases the meaning of the message becoming completely changed.

2. Source Credibility. The likelihood of a receiver believing and trusting in an item of information is said to be directly related to the source from which it comes. There may be inbuilt prejudice on the part of both the sender and receiver of the communication. Different people have different biases and views.
3. Mistaken Assumptions. If the senders make assumptions about the target audience, e.g. that the receiver actually wishes to hear the message, then they should be correct assumptions supported by evidence.
4. The Climate of the Organisation. The attitudes of the management will influence the communications climate. The success of the communication process depends on the atmosphere in the organisation, ie whether it is one of fear or one of trust.
5. Lack of Planning The message may be unstructured, clumsy and lacking in conviction due to lack of planning and preparation. The objectives of the exercise must be decided before the communication takes place, e.g. is the purpose to inform, persuade, advise, share, consult etc? Once the objectives are clear then planning can take place. Plan the clarity and delivery of the message and plan to avoid barriers if possible.

When planning the communication, consideration must be given to the following:

The Language. The language must be suited to the audience. Technical jargon or 'buzzwords' often have different meanings for different people. Suit the language used to the capabilities of the receiver(s) of the message. Use technical jargon only when necessary. Organise all the ideas that make up the message well and express them as clearly as possible.

The Media. Decide on the most suitable medium or combinations of media for the job in hand, i.e. the most appropriate for the transmission of the message. Using media that combine hearing and seeing are often regarded as best because people tend to remember more of the message if it is both seen and heard at the same time. Pick a medium to suit the needs.

Communications in an Organisation.

(1) Downward Communications

Occur when instructions, orders, directions, etc. are transmitted from a superior to a subordinate. Usually designed to help the individual understand the task to be performed and avoid mistakes e.g. issuing detailed instructions on how to perform a particular job. One-way communication, no feedback from the receivers, no replies or responses.

(2) Upward Communications

Upward communications allow complaints, difficulties or suggestions to be reported up the line to the superior by the subordinate. The messages may be either written or oral and move in both up and down directions between manager and worker.

(3) Lateral (Horizontal) Communications

Maintained between people with the same level of authority in the organisation. To ensure that the various sections of the organisation work together at all times in the general interest of all eg the marketing department and finance department meet.

(4) Feedback

Good information is the basis of decision making. Successful communication of messages from and to decision-makers is vital. Everybody in the organisation should have the opportunity to influence decision making through providing feedback. By getting opinions through discussion, decision making may be slow but once a decision is reached then satisfaction with it is high. Feedback is important because:

It makes the message clear.

It allows the subordinates to have a say.

It brings everyone closer together.

It encourages a democratic style leadership.

(C) Motivational Theories

Motivation may be defined as the factors that cause people to act or behave in certain ways. People's behaviour can be influenced (controlled) by motivating them to meet their unsatisfied needs. (1) A need (2) A goal (3) Action (4) Feedback.

Maslow's Hierarchy of Needs

The satisfaction of a person's needs begins with the basic physiological needs, eg food and shelter (salary). Only after these basic needs have been satisfied will a person attempt to satisfy the next need

on the ladder, eg safety needs (secure employment),social needs (friends in work groups), esteem (job titles) , self actualization (challenging job).

McGregor's Theory X and Theory Y

Theory X

The average human being has a natural in-built dislike for work.
People have to be forced, controlled and threatened with punishment.
Safety and security above all else.
Avoidance of responsibility.

Theory X suits the autocratic manager.

Theory Y

The individual does not dislike work.
Work is very satisfying.
Strict control over people is not necessary if people are committed to shared objectives
The satisfaction of self- actualisation, is the best way to get effort from people.
Human being can be taught to accept and seek responsibility.
All members of the organisation can help solve problems.

Theory Y would suit a democratic style of management.

Question 5

(A) Business Plan - Importance of a Business Plan

§ It sets out a thoughtful, well presented/laid out, logical set of steps designed to implement both short and long term strategies over agreed time periods, e.g. one year, five years, ten years, etc. It plans how to get where the enterprise wants to go.

§ It is a vital document when approaching any financial institution, grant agencies or other investors seeking funds (capital) for the enterprise. Without it, the future, and therefore the success of the project, will not be fully appreciated. No financial institutions will give funds to an enterprise without being convinced that the investment has a good chance of being recovered. The business plan markets the enterprise, it sells the business ideas to others and encourages them to seriously consider the project.

§ The nature of the business plan is such that targets are set in figures wherever possible. By having these figures available they can be used as the benchmarks or standards against which the operations and performance of the enterprise can be measured. If the standards are not reached then the action to fix the problem can be implemented.

(A) (ii) Role in Business Start Ups – Headings

Introduction

The introduction contains the name, address, telephone, fax numbers and E-mail addresses of the enterprise together with a brief description of the type of business organisation - company, partnership, etc., the activities of the enterprise and the people involved, ie the owners, advisers, bankers, etc.

1. Description of the Enterprise

The description provides details of background, history, products and services, financial performance to date, customers, the goals (long range) of the enterprise and the particular strategies set out to achieve them.

2. Key Personnel

Included under key personnel are details of the management team, e.g. ages, experience, qualifications, etc. and the management structure in place. It is however, more important to show their enthusiasm and commitment to the enterprise. Future personnel requirements might also be dealt with under this head.

3. Market Analysis

Market analysis will have to examine: Information on the market size and present and future trends. The location and structure of the market. The segments of the target market and product details like design features and use. Details on customer preferences and behaviour. The age, sex and socio-economic group of potential customers is important. Channels of distribution.

4. Marketing Strategies

What is the competitive edge? What is the Unique Selling Point (USP) of the product or service and the strategy to cope and deal with the reaction from the competition. Sales projections and a pricing policy must be set out together with promotion and advertising methods, distribution methods, product packaging, credit terms, product liability and warranties.

5. Products or Services

A detailed description of the product, its uses and applications, any product technology, the research and development completed and any licensing arrangements.

6. Manufacturing, Operations and Premises

A description of the product manufacturing process, the premises, plant and equipment proposed, the provisions made for quality, the capital expenditure expected and the cost competitiveness of the operation.

7. Financial Analysis

Projections for the future, A realistic projected profit and loss account and balance sheet for three to five years ahead, Cash flow forecasts with inflows and outflows of cash for the same length of time are all provided, details of sources of funds and financial control.

8. Investment Proposal

The investment proposal will set out the amount and the reasons why the capital is required, the type of funds sought whether loan or equity, etc. and details of any security on offer. The percentage of the shareholding available to the investor.

Question 5

(B) Factors to be considered when selecting sources of capital for expansion.

Equity Capital

The benefits of using equity capital as a source of funding growth include the following:

- There is no guarantee to the equity shareholders that they will receive a dividend each year. Equity capital can be a cheap method of finance from the point of view of the business. If the company had a bad trading year and profits were low then, since there is no obligation to shareholders, the business could simply continue on.
- The company does not have to pay back the share capital to the shareholders. Compare this situation to a loan where capital and interest must be repaid.
- The ordinary Share Capital does not create expenses (overheads) for the business unlike interest on borrowings which are a charge on the profits. If a profit is made there is therefore more money available for the shareholders.
- Company directors, in agreement with shareholders, have considerable influence in deciding whether to use or not to use retained earnings (reserves) to finance the growth potential of the business.

The dangers to the business of employing equity capital are:

- The demand for Ordinary shares among investors is subject to the uncertainties of the marketplace. There is a high business risk attaching to them. 'Risk-averse' investors will avoid them. The shares may have to be sold at a low price or large numbers of them offered for the required finance.
- The creation of additional shareholders dilutes the influence of the enterprise's original promoters (founders) in the decision-making process. The shareholders will certainly exercise their votes to moderate policy decisions. This influence may run counter to the long term wishes of the original owners.

- The issuing of shares, especially if the company is a public one, can be expensive. There are various legal formalities to be met and professional fees to be paid.
- Public limited companies must submit to rigorous financial requirements if they are to be listed on the Stock Exchange.

Long Term Loan Capital

Long term loans from financial institutions, i.e. debt capital, have benefits for the growing business enterprise.

- Compared to the raising of share capital, debt capital is easier to obtain. There are many types of business loans available in the market place from all types of banks and investors.
- It can be a cheap source of finance compared to equity.
- During times of inflation, the relative cost to the business of all interest payments and repayment of capital diminishes. This, of course, is good from the borrower's point of view.
- Interest payments on business loans are an allowable expense in the Profit and Loss account thus reducing the corporation tax liability of the enterprise.

The dangers to the business of using loans are:

- All loan interest, capital repayments and other charges must be made to the financial institution as agreed irrespective of the business performance.
- A highly geared company, i.e. one with a high debt/equity ratio, will suffer a reduced ability to allocate profits to shareholders by way of dividend because of the payments associated with the loan.
- Loan capital may affect the flexibility of the business as repayments at certain agreed times can affect liquidity and thus business decisions.
- The suppliers of debt capital may insist on one of their representatives being appointed to the board of directors to monitor the progress of the business.

Factors to be considered

Cost/Interest
Control/BOD/Management
Purpose/Mismatch
Access/Availability
Risk/Gearing
Security/Collateral
Profit/Taxation
Credit Rating

(C) Reasons for Expansion

Small 'one person' sole trader type enterprises are attracted to growth because they may:

- Wish to test out and succeed with new product ideas or approaches. Strive for the personal satisfaction of watching the enterprise grow.
- Desire to provide career and economic opportunities to their children, staff and colleagues.
- See no point in buying particular items but would rather produce them in-house using advanced technology, so that product reliability will be increased and costs reduced.

Larger more established businesses are equally attracted to growth because it:

- Creates economies of scale. The general cost of running a larger business enterprise rather than a smaller one may be reduced because the business functions of the enterprise can be rationalised, cutting down expenses.
- Increases the security of the enterprise. Being a big player with a large market share will obviously strengthen the enterprise in the market place. The larger business is also able to weather the storms of recession if the need arises.
- Expansion increases the financial strength of the enterprise through sheer size. A large business enterprise commands prestige, influence and power, for example with banks, other smaller businesses and government departments.
- Allows for growth through diversification into varying product ranges. In this way the enterprise reduces its risk exposure and since it does not depend on any one product type in particular it has a higher chance of survival.

- Synergy. Where business enterprises merge together, synergy is the theory that the sum of the potential of the two amalgamated businesses is higher than the sum of the two enterprises if they remained separate from each other. It allows for the closure of inefficient plant and the sale of assets that may not be required by the large new efficient business.
- Helps to acquire certain patents, processes, expertise or technologies that enhance the overall profitability of the business in the short and long term.
- Protects vital raw material sources. An expanding enterprise may find it attractive to completely control a source of raw materials on which the future of the business depends.
- In the cases of the rapid growth of agricultural co-operatives that have become public limited companies (PLCs), such as Kerry Foods, Avonmore Foods, Waterford Foods and Golden Vale, the main reasons for so doing were that going public allowed for very large amounts of finance to be raised quickly through the issue of shares to the public. The stock exchange quotation afforded regular and widespread publicity in the media to the advantage of the enterprise. It allowed the founders, investors and employees to sell off some of their shares.

Question 6

(A) External sources of new product/service ideas

Since most business ideas are second hand or adaptations of existing products and services, keep a close eye on the existing market and look for gaps that can be filled. For example, 'Green' products or 'Low Fat' products. These are simply variations of products which were in existence already but when consumer demand changed, the new product varieties blossomed. All changes in society such as new legislation, regulations of various bodies and codes of practice etc. offer the opportunity to be first in with the new requirements.

Spotting the future requirements and needs of the market place will give an edge over the competition and ensure a good market share.

What the competitors are doing and any trends that are developing. What the competitors are not doing, ie potential customers that are being neglected.

Outside research agencies eg. professional business advisers and consultants, trade publications and advertising agencies.

Databases available on computer worldwide. The list of ideas in the patent office or research being conducted into product innovations at various educational establishments.

Organisations such as An Bord Trachtala, Forbairt, the Central Statistics Office, county enterprise boards, government departments, business associations can have very useful statistical information readily available which may produce the germ of a successful product or service idea.

Product idea centres are located at all the regional offices of Forbairt and allow access to all the trade statistics on record together with information on new products, sub- contracting and licensing opportunities. Forbairt also has a very successful product development service.

Products or services that are available in other countries but not in Ireland as yet, could be adapted for the Irish market. If, for example a product has no patent it may be freely copied without cost.

Investigate the needs of businesses and the bigger organisations in the market place. Organisations may be willing to sub-contract work such as cleaning or catering, offering a ready-made opportunity for a small business. Permanent sub-contract work is now very common in Ireland with the services being provided under commercial contracts and in a lot of cases solely for one firm.

Request people to submit their ideas, conduct student competitions, public competitions, complaints made by existing customers, etc.

Business Activity Groups.

Franchising is almost like owning your own business but with strict conditions attached. The owner of an idea franchises it, allowing somebody else make or sell their idea provided they do it in a certain way.

Other opportunities may be identified in the following areas:

- Manufacturing. Producing products in Ireland in your own manufacturing facility.
- Agency. Having an agency means selling for a foreign manufacturer or distributor on the Irish market and receiving payment on a commission basis
- Import Substitution. Locating an imported product on sale on the Irish market at the moment and displacing it with a home-produced product of similar quality and price. Study in detail the imports lists of goods coming into the country.
- Services. Many service providers/traders are enjoying good growth, especially with services such as professional consultants (banking, marketing, architecture, personnel, etc.) the

entertainment industry (show business, films, television, etc.) personal services (hairdressing, sport, social), home services (gardening, cleaning, decorating, child minding), business services (printing, design, book keeping etc.).

Public Procurement. The EU now require that all public bodies such as local and central government publicly advertise all contracts above a certain value throughout the EU. An Irish-based firm will have location advantages which should translate into a competitive price.

(B)(i) Break-Even Chart.

(a) Break-Even Point (BEP)

Costs		
Fixed Costs (FC)	300,000	
Variable Costs (VC)	400,000	
	700,000	
Revenue	1,000,000	(ie. 20,000 x €50)
Profit	€300,000	

BEP = Fixed Cost/Contribution per Unit

Contribution = Selling Price (€50) minus Variable Cost (€20) = €30

€300,000/€30 = 10,000 units.

(b) Profit at forecast output

Revenue	20,000 units x €50 each	= 1,000,000
FC		= 300,000
VC		= 400,000
Profit		= 300,000

(c) Margin Of Safety at forecast output

How far the forecast sales can fall before the business is no longer viable ie. it becomes loss making.

Each unit contributes €30 to the Fixed Costs

Fixed costs are €300,000

Therefore Sales of 10,000 units covers these costs

Sales can drop from 20,000 units to 10,000 units before the business suffers loss

Therefore the margin of safety is also 10,000 units.

(ii) Variable costs increase to €25 per unit

FC	300,000	
VC2	500,000	
	800,000	
Revenue	1,000,000	(ie. 20,000 x 50)
Profit	€ 200,000	

BEP = Fixed Cost/Contribution per Unit

Contribution = Selling Price (€50) minus Variable Cost (€25) = €25

300,000/25 = 12,000 units.

Question 7

(A) Price factors

Strategic Pricing

Most enterprises would adopt a sensible pricing policy that would cover all costs and provide an acceptable margin of profit. They set a strategic price which would be the normal price charged on an everyday basis to all customers. This strategic price would be set bearing in mind the objectives of the enterprise to make adequate profit and return on investment. The emphasis would be on good, regular inflows of cash into the business but it is not always possible for an enterprise to strictly maintain this strategic pricing policy.

Cost Plus Pricing

All the product costs involved in research and development, production and distribution and a margin for profit are added and the total cost determined. Cost plus pricing is a naturally acceptable pricing policy since all costs are covered. It can prove to be inflexible however in that this economic cost approach does not always consider the market conditions which may require a different pricing policy. This cost plus price is one of the higher price policies because it attempts to recoup as much as possible of the costs at the start.

Going Rate Pricing

To compete on the market, prices must be set at the same level as those of the competition. Whatever the competitor does, you do, e.g. reduce the price of products in response to a reduction in the competitors' price, (Aer Lingus vs Ryan Air, Eircom vs Smart). This is a very simple policy to pursue but the enterprise may not be able to sustain it indefinitely bearing in mind its own cost structures and required profit margins.

Market Share Pricing (Penetration Pricing)

Market share pricing involves setting prices lower than the competition in order to gain and keep market share. Cutting costs to the bone may be necessary. In an effort to make the maximum profit over the short term, the pricing policy might be to set high prices when demand is highest and to reduce the prices as demand falls. An example of this might be the higher prices charged where there is a short-term, high demand, e.g. accommodation during an international sporting weekend. New inventions or new products that have no rival or substitute on the market will usually be very expensive at the start. Competitive alternatives will come onto the market and the price will go down.

Premium Pricing

In an effort to reinforce the desired high quality image, an enterprise might pitch prices at a higher level than the competition. This policy may result in reduced income in the short term because of the competitive price advantage given to competitors, but it may result in profits with time. The buyer psychologically expects to pay a higher price for luxury goods such as jewellery, fashion clothes, etc. These goods are perceived to be at the top end of the product range and the price expectation matches this perception. The customer 'expects to pay' a price proportionate to the value of the product to him. If the good is too cheap then it may be viewed as not being of good enough quality.

Tactical Pricing

Tactical pricing involves the use of discounting, promotional prices and special offers. It is a useful policy where large quantity purchases are helped by unit price reductions to the buyer, e.g. products approaching the end of their useful life. Discounts are very commonly granted to customers who pay immediately by cash. Businesses often offer trade discount to other businesses in the same line of business as themselves. This type of pricing encourages an increase in sales by the enterprise generally and can be focused on a particular segment of the market. It is useful to offer an incentive price at the launch stage to establish the product among the potential customers identified during market research. Special offers and promotions often attract the new customer to try out the product for the first time and may result in further sales in the future. A tactical pricing policy is also useful if cash is needed urgently in the short term.

(B) Promotion

This is used by business enterprises to let existing and possible future customers know about the products on offer and to get them interested in buying the goods. The purpose of promotion is to inform the market that the enterprise has something for sale and to convince someone to actually purchase it.

Product or Service Choice

The essential promotional methods are:

§ Advertising. The use of communications to influence customers towards a particular product or service. To inform, persuade and remind customers. The medium used will depend on the market segment, the type of product or service, the message and the cost effectiveness. Relate to product or service choice.

§ Public relations. The provision of details of the enterprises policies and plans to customers and the public eg. promoting the name of the enterprise in the public mind, generating goodwill for the enterprise's products. Publicity through sponsorship/ relations with local community. Relate to product or service choice.

§ Personal selling. The use of personal contact to persuade customers to purchase the product or service. Face to face meetings useful for expensive products or ones that require high degrees of expertise or technical knowledge. Relate to product or service choice

(C) Market Segmentation

All potential markets can be divided into different segments or distinct parts which are different from the other parts of the market in some way or another.

Distinguishing Market Segments eg. industrial customers and household customers.

Segments of the household consumer market can be identified as follows:

1. Socio-economic class. The researchers divide socio-economic classes into groups to help distinguish the disposable income levels of each class and the preferences for certain types of goods in the particular class.
2. Age groups. In the younger age profiles, eg teenagers are interested in their image so products like fashion clothes would be important to them.
3. Regional groups. Geographical groups in particular such as rural or urban.
4. Religion or ethnic groups. Such as Asian/African communities in a European country.
5. Housing type. Privately owned versus public housing, apartments as against houses, etc.
6. Attitude to life. The attitude to life can depend on the socio-economic class people come from. The poorer people in the market will not be interested in the top quality type product because of the price.
7. Family life style. Hobbies and interests
8. Disposable income.