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# Chapter 19

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## Identifying Business Ideas

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### Unit 5

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### Higher Level

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### Past Exam notes (For this chapter)

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## INTRODUCTION

All new enterprises must start with an idea. Established business need to identify new ideas and opportunities if they are going to expand, replace products (life cycle). New idea come from 2 places for business and individuals

1. Internally
2. Externally

### Past exam Questions

2013 Q6 A

2011 Q6 C

### Internal ideas for entrepreneurs

1. Brainstorming sessions - This involves people from different areas of the business coming together and creatively thinking up new ideas. Some of these ideas are rejected while some are giving further consideration. The diversity of the team assists in the creativity process.
2. Market Trends - Feedback assists the marketing manager in identifying market trends which can then be used to identify new product ideas/improvements
3. Staff Suggestions - many firms offer rewards and incentives to staff for ideas (Intra...)
4. R&D - Refers to firms investing in the development of new and improved products. Some researching one product may identify a different/profitable innovation (Post-it)
5. Sales personnel - Market research or feedback from sales representatives is a major source of product innovation and new product ideas.

### External ideas for Entrepreneurs

1. Copying - Very common sometime the copycat improves the original. Holidays and travel can inspire ideas (Geoff Read got the idea for Ballygowan after noticing that there was no Irish mineral water)
2. State agencies - Enterprise Ireland and county enterprise boards provide market research and technical assistance in developing a new product
3. Import substitution - This is where a product that is currently being imported is substituted by a home produced product of a similar quality or price.
4. Use a Market Research company to identify gaps in the market and market trends.  
Companies can then exploit these gaps or niche markets.
5. Customer Complaints/Feedback - This could result in changes in or further developments of existing products. Market Research companies - Can provide reports that identify new trends and gaps in the market

**HOW CAN NEW BUSINESS IDEAS BE RESEARCHED?****Past exam Questions**

2011 ABQ

**Market Research**

**Def** Market research is the systematic **gathering, recording and analysing of facts about some element of the marketing mix** in order to **identify and satisfy customer needs in an informed and effective manner**. It ensures that the right goods are produced at the right time for the right market at the right price. Reasons for market research include - competition, new opportunities, business growth and decision making

**Past exam Questions**

2020 Q5 B

**Benefits of market research includes the following**

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. The business needs to undertake research to find out the actual size of the target market and the potential to enter that market
2. To identify if there is demand - The business needs to test market the product to see if people would be interested in the product. This will also allow the business to take feedback on the product and make any changes which may be necessary. It will also help them estimate the likely level of sale thus the optimum level to produce
3. To establish a price point - The business needs to research how much it will cost to produce, distribute and promote the product and how much potential customers would be willing to pay for the product.
4. Identifies competitors - how well they are doing, strengths and weakness. The business must find information on all the competitors - the number of competitors, their product range, pricing strategies etc. This will help develop strategies to compete with these other businesses.
5. Tests consumer reaction - to product price and packaging. What customer think of the name, image, price and what they want or don't want
6. Set targets for the business - by undertaking research the business will then be able to set goals/targets they hope to achieve over a specific period of time.
7. To access finance - if the business intends to apply for funding from a financial institution or Government agency, it is essential they conduct market research into the viability of the business.

8. Identify more opportunities - by engaging with potential customers and monitoring trends, this may assist the business in developing more ideas to enhance existing products.

What type of market research can be carried out

There are two types of market research

- Desk research
- Field research

**Past exam Questions**

2022 Q7 C

2013 Q7 A

The research chosen will depend on

1. Information required
2. Detail and accuracy needed
3. The cost involved
4. Time and money available to do the research

**SOURCES OF MARKET RESEARCH**

**Desk Research**

1. Internal reports
2. The internet
3. Newspapers
4. Trade associations
5. Experts
6. Stats from state agencies

**Field Research**

1. Observation
2. Customer Surveys
3. Talking to people already in the market
4. Relevant work experience

Desk Research

Is also known as secondary research. It means accessing information that has already been gathered by others. Most can be obtained by sitting at a desk using books, reports, statistics. The main sources are

1. Reports & Statistics - compiled by government agencies (CSO) and Enterprise Ireland
2. The Internet - Free information about business in Ireland and the World (Cully and Scully)
3. Newspapers & Magazines - Geoff Read got his idea from reading a newspaper article
4. Experts - Cully and Scully got advice from Bord Bia
5. Feedback - sales staff & previous market research (Coca-cola show sales of coke were stagnant)

6. Commercial market-research - specialise in collecting information about different markets (Red C, MRBI)

**Advantages**

1. Large quantities of useful information are available quickly and at a low cost

**Disadvantages**

2. The data may be too general or out of date

**Field Research**

This involves going into the market and gathering the business information directly from customers and competitors. It can be more expensive than desk research but can be very detailed

**Types of Field Research****1. Observations**

- a) This involves watching the behaviour of consumers
- b) How do shoppers choose between different brands?
- c) It only reveals what people do and not why
- d) It can also be used to study competitor and how they run their business which can be useful when planning a new business

**2. Customer Surveys**

- a) Involves using a questionnaire and asking customers about their attitudes towards new product ideas or existing goods or services
- b) They can be done
  - i. Face to face
  - ii. Over the Phone
  - iii. Over the Internet
  - iv. By Post
- c) It is not possible to survey everyone in the target market so a sample of the target market should be taken
- d) Sampling refers to interviewing a small group of people who are representative of the larger target market

**Advantages****Disadvantages**

1. More accurate and detailed information obtained
1. Face-to -face interview can be timely and costly

**Past exam Questions**

2013 Q7 A

2011 ABQ

**Desk Research**

1. Using data already collected - Desk research involves accessing information that has already been gathered. It is also known as secondary research and can be both internal and external.
2. Cheap source of research - Desk research is relatively cheap which keeps business costs down, thereby ensuring a competitive business. It can include the internet, internal sales reports, trade reports, Central Statistics Office publications, newspapers
3. Information on competitors and spending patterns - Desk research can provide information on competitors and consumer spending patterns. It can also indicate if consumer spending patterns have changed and if they are ready for different accessories in the range.

**Field research**

1. Gather new information - Field research involves going into the marketplace to gather first-hand or new business information. It is also known as primary research which is carried out by making direct contact with customers or potential customers.
2. Expensive source of finance - Field research tends to be expensive and time consuming but it does provide specific information on the behaviour of the target market.
3. Surveys - This involves personal interviews and questionnaires with a sample of the population can be very effective tools in accessing and collecting detailed information about consumer's tastes, behaviours, and attitudes in the market place. Surveys could be carried out on site at concerts by a research company
4. .Observation - This involves viewing consumers in action e.g. the number of customers selecting a particular product during a particular period in the store. Field research ascertains attitudes and opinions of its customers and they can make specific changes to their products and product portfolio based on the feedback received.
5. Satisfy Customer needs - Field research allows the company to satisfy its customer needs more effectively this is done by listen to their feedback and making relevant changes. this encouraging customer loyalty and increasing the profits of the business.

### STAGES IN DEVELOPING A NEW PRODUCT OR SERVICE

There are 7 stages in the development of a new product or service

1. Idea Generation
2. Product Screening
3. Concept Development
4. Feasibility Study
5. Prototype Development
6. Test Marketing
7. Production and Launch

#### Past Exam questions

2019 Q6 A (ii)  
2017 Q5 A  
2015 Q5 B  
2014 Short Question 2  
2013 ABQ A  
2015 Q6 B  
2010 Short Question 2

#### 1. Idea Generation

Initial ideas for the new product are thought either by internal or external. Ideas may be generated by brain-storming sessions, market research, staff suggestions, customer suggestions/feedback on existing products or services, competitors, or R & D

#### Past exam Papers

2019 Q6 A (i)

#### 2. Product Screening

All ideas are vetted and the impractical and 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 not marketable and ensures that good opportunities are not lost.

#### 3. Concept Development

This involves turning the idea into an actual product or service that will appeal to/meet the needs of customers. A unique selling point (USP) is identified which will differentiate it from other products on the market and competition.

For Example    Mercedes-Benz's USP = Luxury

Toyota's USP = Reliability

#### 4. 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 regulation re. safety standards, and will it be marketable etc.? It seeks answers to

questions such as, what demand will there be for the product; what will it cost to produce and can the business afford it?

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

#### 5. 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 adjustments/improvements can be made before deciding to go into full production.

This is a 'mock-up' original of a product. It is manufactured to see any flaws in the original design and to see if the product can be made. The prototype also allows the product to be changed/updated. Characteristics, difficulties and costs of production can be identified before going into full launch.

#### 6. 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 and Promotion of the product. Test Marketing is very important because launching a product/service can be very expensive and risky due to. Large production, Advertising and Opportunity Costs

It involves doing a small-scale trial to identify possible faults and to assess customer reaction. The product is tested on a sample of potential consumers before going into full production.

#### 7. 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



## BREAK EVEN ANALYSIS

To be profitable a business must generate enough income (revenue) to cover the all the cost involved in the business. These costs included the following

### Past Exam Questions

2022 Short Question 9  
2021 Q7 B & C  
2019 Short Question 10 (i)  
2017 Short Question 8 (i)  
2014 Short Questions 10  
2013 Short Question 6  
2012 Short Question 10  
2011 Q7 C  
2010 Short Question 6

1. Fixed costs Are the cost that remain the same regardless of the number of products produced
2. Variable Costs These are the costs that vary depending on how many units are produced

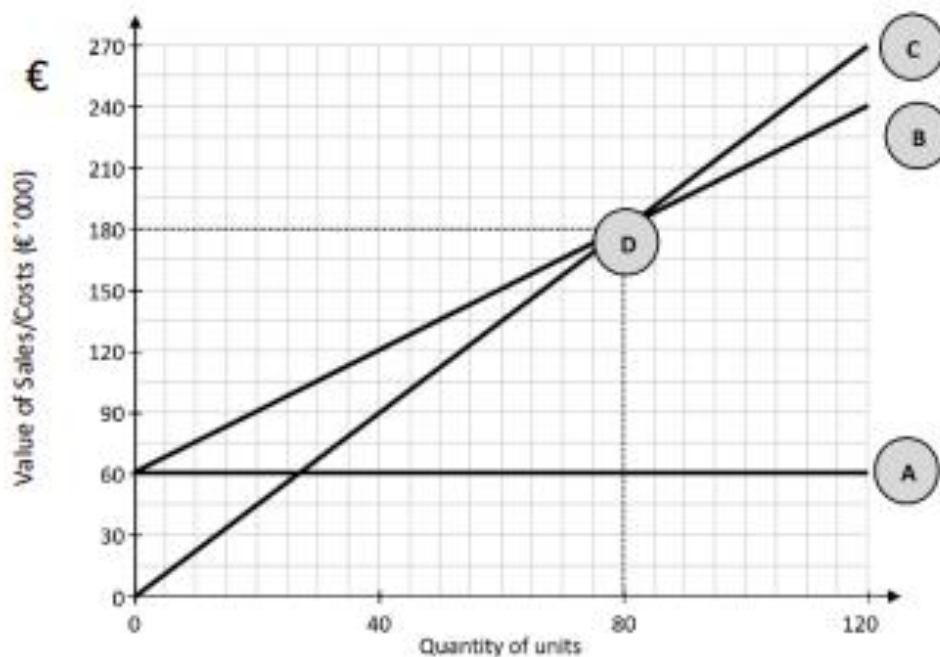
The Breakeven point shows the number of sales that must be achieved at a particular price in order to cover costs and break even

### Past Exam Questions

2017 Short Question 8 (ii)

The margin of safety is the number of sales (in units) that a business can afford to lose before it reaches Break-even Point. It identifies the point at which businesses will start to make a loss and acts as a buffer for business to ensure that this point is not reached.

### Break-Even Chart for Eurocon DAC



A - Fixed Assets

B - Total Costs (Total Costs = Fixed Costs + Variable Costs)

C - Total Revenue (Sale x Selling Price)

D - Break Even point

### LIMITATION OF A BREAK-EVEN ANALYSIS

#### Past Exam Questions

2021 Q7 C

2019 Short Question 3 (iii)

Economies of scale:	The breakeven chart does not account for the variable cost per unit decreasing as output increases.
Selling price:	A limitation of the breakeven chart is that it assumes the selling price remains the same. It does not allow/factor that selling price might be reduced for bulk orders.
Faulty stock	The breakeven chart does not allow for the costs of products that are faulty/production errors.
Stock not Sold	Breakeven analysis assumes that all stock is sold.
Fixed Costs	will only remain constant over a small range of output and assumed constant on chart.

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# Chapter 19

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## Identifying business Ideas

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### Unit 5

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### Higher Level

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### Past Exam Questions

(For this chapter)

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### SHORT QUESTIONS

#### 2022 - Question 9

The following information is supplied by Fleming Ltd.

- Forecasted Output (Sales) 75,000 units
- Fixed Costs €55,000
- Selling price per unit €6
- Variable Costs per unit €2.50

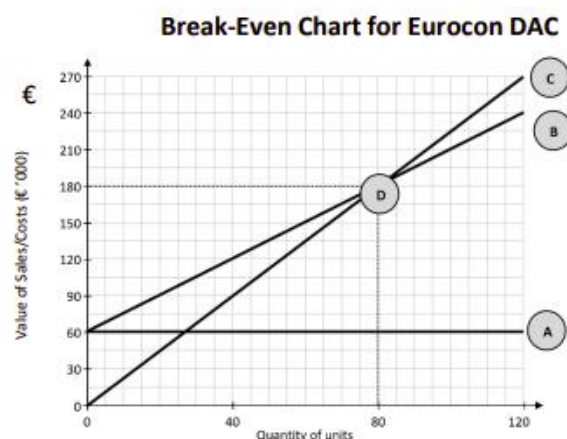
Using the information provided above calculate the following:

		Workings	Answer
(a)	Total Revenue at forecasted output		€
(b)	Total Costs of Production at forecasted output		€
(c)	Profit at forecasted output		€
(d)	Breakeven point (BEP) in units (It is not necessary to draw a breakeven chart)		Units

#### 2019 - Question 10

- (i) Read the Break-Even chart below and identify the full labels (not abbreviations) for A, B, C and D.

Answer Box	
	Full Label
A	
B	
C	
D	



(ii) Calculate Profit at Forecast Output of 120 units.

Show your workings

Workings

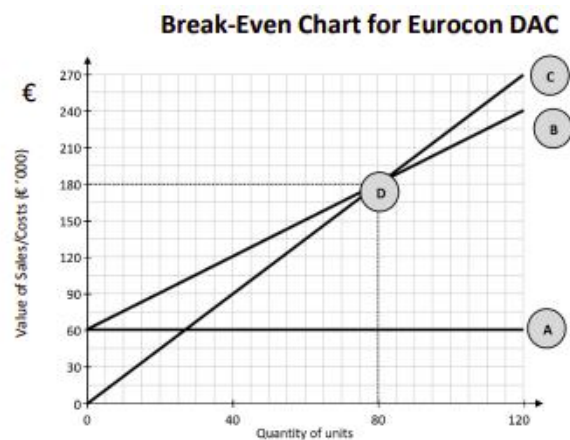
Profit at forecast

Answer \_\_\_\_\_

### 2017 - Question 8

(i) Read the Break-Even chart below and identify the full labels (not abbreviations) for A, B, C and D.

Answer Box	
	Full Label
A	
B	
C	
D	



(ii) Calculate the margin of safety at 75,000 units.

Show your workings

Workings

Profit at forecast

Answer \_\_\_\_\_

### 2014 - Question 10

The following information is supplied by Canon Ltd.

- Forecasted Output (Sales) 60,000 units
- Fixed Costs €48,000
- Selling price per unit €5
- Variable Costs per unit €2

Show your workings

Using the information provided calculate the following:

- Total Revenue at forecasted output
  - Total Costs of production at forecasted output
  - Profit at forecasted output
  - Breakeven point (BEP) in units
- (Answer in the Answer Box below)

**ANSWER BOX**

	<u>Workings</u>	<u>Answer</u>
(a) Total Revenue at forecasted output		€
(b) Total Costs of production at forecasted output		€
(c) Profit at forecasted output		€
(d) Breakeven point (BEP) in units		Units

**2014 - Question 2**

Column 1 is a list of business terms. Column 2 is a list of possible explanations for these business terms. (One explanation does not refer to any of the business terms.)

<b>Column 1 - Business Terms</b>	<b>Column 2 - Explanations</b>
1. Idea Generation	A. It involves developing a sample or 'mock-up' of a product.
2. Concept Development	B. Brainstorming is one of the methods used.
3. Product Launch	C. Is carried out to assess if a product has profit potential.
4. Prototype development	D. The product is made available to the market.
5. Feasibility Study	E. Unworkable ideas are dropped.
	F. A unique selling point (USP) is identified.

Match the two lists by placing the letter of the correct explanation under the relevant number below.

1	2	3	4	5

**2013 - Question 6**

In break-even analysis a distinction is made between 'Fixed Costs' and 'Variable Costs'. Explain these terms and give one example in each case.

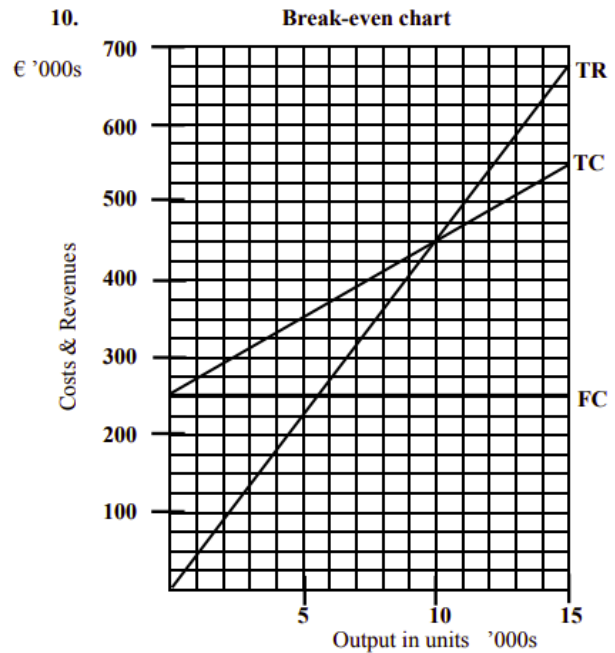

## 2012 - Question 10

Answer the following questions in the Answer Box below.

- (i) Break-even point (BEP) in units and in euros
- (ii) The Profit at Forecast Sales (15,000 units) in euros.

## Answer Box

BEP in units and in euros	Units: _____ €
Profit at Forecast Sales in euros	€



- (iii) Explain the term Margin of Safety.


## 2010 - Question 2

Distinguish between prototype development and the marketing as stages in the development process of a new product

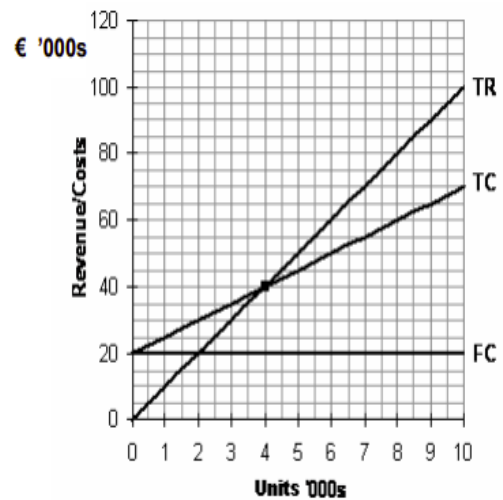

## 2010 - Question 6

Study the break-even chart below and answer the following questions in the Answer Box provided:

- (i) Break-even point (BEP) in units and in euros
- (ii) The Profit at Forecast Sales (10,000units) in euros.
- (iii) Margin of safety (MOS) in units.

**Answer Box**

BEP in units and in euros	Units: _____ €
Profit at Forecast Sales in euros	€
Margin of safety in units	Units: _____

**LONG QUESTIONS****2022 - Question 7**

- (C) Outline the importance of businesses engaging in market research. (15)

**2021 - Question 7**

- (B) Moon Moods has provided the following information for their new product line:

Forecast Output (Sales)	30,000 units
Selling Price per unit	€15
Fixed Costs	€200,000
Variable Costs per unit	€5

Illustrate the following by means of a breakeven chart:

- Breakeven point
- Margin of safety at the forecast output
- Profit at forecast output. (25)

- (C) (i) Define the term margin of safety.  
(ii) Discuss one limitation of a breakeven analysis when making business decisions. (15)



**2020 - Question 5**

- (B) Describe the reasons why a business conducts market research. (20)

**2019 - Question 6**

Read the information supplied and answer the questions which follow.

Fitbit fitness watches Fitbit fitness watches are wireless-enabled wearable technology devices that measure data such as the number of steps walked, heart rate, quality of sleep, steps climbed, and other personal metrics involved in fitness. In 2018 Fitbit announced plans to collaborate with Google in the digital health technology market  
[www.fitbit.com](http://www.fitbit.com)

- A (i) Explain the term unique selling point (USP) and provide an example to support your answer.
- (ii) Illustrate the new product development stages of Feasibility Study, Prototype Development and Test Marketing with reference to the Fitbit fitness watch. (20)

**2017 - Question 5**

Read the information supplied and answer the question which follows

In 2015 a Slovakian company AeroMobil revealed its prototype of the AeroMobil 3.0 - a flying car. It is a road-ready vehicle with foldable wings. It can navigate both city traffic and airspace. Source: Forbes Magazine, March 2015

- (A) Describe the stages in the new product development process up to and including prototype development. Refer to the AeroMobil 3.0 vehicle in your answer (25)

**2015 - Question 5**

- (B) Feasibility Study, Test Marketing, Product Screening and Prototype Development are stages in the new Product Development Process.

- (i) List the four stages above in the correct order.
- (ii) Outline your understanding of any three of these stages. (20)

**2013 - ABQ**

- (A) Outline the stages involved in the product development process of 'Knights' Domain' for Galaxy Games Ltd. (30)

**2013 - Question 6**

Read the information supplied and answer the questions which follow.

Google's '20 Percent Time' strategy gives engineers time and space to work on their own projects.

- (A) Outline the internal and external sources of new product ideas for technology companies like Google. (20)

**2013 - Question 7**

Read the information supplied and answer the questions which follow.

An Irish company, 'All-Weather Wellies Ltd' identified a niche market for colourful wellington boots of all sizes. The wellington boots are sold mainly on-line to people who enjoy the 'great outdoors' and festival-goers. The company wishes to expand and add accessories, such as, umbrellas, scarves and hats to the product range.

- (A) Outline the market research techniques available to 'All-Weather Wellies Ltd' for developing its product range. (20)

**2012 - Question 5**

- (B) Idea Generation and Feasibility Study are important stages before a new product or service is launched onto the market. Discuss the stages underlined above, referring to a product or service of your choice. (20)

### 2011 - Question 6

Read the information supplied and answer the questions which follow.

Kilronan Ltd produces a range of chilled food products. Made from natural ingredients, the firm's award winning products have become household names. It is now one of the leading brands in Ireland and supplies all the major supermarket chains. Kilronan Ltd is considering either a 'merger' or a 'takeover' as a method of expansion within the Irish market. It is also considering how it will finance growth.

- (C) Outline internal and external sources of product innovation for Kilronan Ltd. (20)

### 2011 - ABQ

- (C) (i) Explain the term 'Market Research'.  
 (ii) Analyse how Desk and Field Research can contribute to the continued success of Clothes-4-Us Ltd. (30)

### 2011 - Question 7

- (C) As part of its feasibility study for a new product, Moore Ltd supplies the following financial information:

Forecast Output (Sales)	40,000 units
Selling Price per unit	€20
Fixed Costs	€300,000
Variable Cost per unit	€10

- (i) Illustrate by means of a breakeven chart the following:
- (a) The Breakeven Point
  - (b) Profit at forecast output;
  - (c) The Margin of Safety at forecast output.
- (ii) Outline one other function of a feasibility study for Moore Ltd. (25)