

UNIT 5

15 Identifying business opportunities

Learning objectives

In this chapter you will learn about:

- 1 Researching and developing new business opportunities
- 2 Applying break-even analysis to a new product

Identifying opportunities

Ways of generating new business ideas

Individuals	
Internal Hobbies, interests, sports Skills Innovations Business experience	External Neighbours, relations, friends Holidays, travel Copying ideas Education
Businesses	
Internal Research and development Staff suggestions Sales staff feedback Customer feedback Intrapreneurship	External Market research University links Government agencies Competitors International trends Import substitution Alliances Patents/copyrights Franchises

Top Tip!

You will not be required to know long lists of sources of business ideas, but you should be able to give a few examples of each type.

Market research

Market research is the process of collecting and analysing information about the market for a product. This helps a business to make the right decisions about bringing products to the market so that they will meet consumer needs.

Information sought through market research

- **The size of the market**
- **Consumer profile** in terms of age, gender, income, lifestyles, tastes and preferences
- **Competitors** – their products, market share and prices
- **Consumer reaction to a new product** – its price, design features, performance and appearance
- **Market trends**, i.e. changes in fashions or consumer preferences

Importance of market research information

- Quantifies the market and identifies the target market for the product
- Ensures the company's product meets consumer needs in terms of product features, quality and price
- Saves money by stopping the development of a new product if it is not likely to be viable in the marketplace
- Allows the firm to devise marketing strategies that emphasise the product's unique selling points
- The firm can exploit competitors' weaknesses and counteract their strengths
- The firm can evaluate the effectiveness of its promotional activities
- The firm can anticipate trends and changes that are happening in the market

Top Tip!

You should be able to discuss the reasons for conducting market research and also the type of information that is sought in market research.



- **Desk research** is based on information that has already been assembled by others. This information can be taken from a variety of sources, both internal and external.
- **Field research** involves going out into the marketplace and finding the information you require yourself.

Remember

You must be able to describe and evaluate both types of market research methods.

- Stage 1: Idea generation
- Stage 2: Screening of ideas
- Stage 3: Concept development
- Stage 4: Feasibility study
- Stage 5: Prototype development
- Stage 6: Test marketing
- Stage 7: Commercial production and product launch

- Make a list of a number of possible new product/service ideas.

- Examine each idea to identify those with real potential and discard those not worth developing.

- Work out what the products features will be, its unique selling point and how it will meet consumers' needs.

- Carefully examine if the product can be developed and brought to the market: Can we make it? Can we finance it? Can we make a profit?

- Produce a working sample of the product so that it can be tested and improved and to allow production methods to be worked out.

- Make the product in small quantities and supply it to a small selected market so that consumer reaction can be assessed.

- Go into full-scale production and launch the product fully onto the market with a full marketing campaign.

You need to be able to list the stages in product development and explain and illustrate each stage with an example.

For a product to break even it must earn enough money from sales revenues to cover all of the costs involved in production. **The break-even point is the level of production at which total sales revenue equals total costs.** The break-even point can be found by using a formula or by drawing a break-even chart.

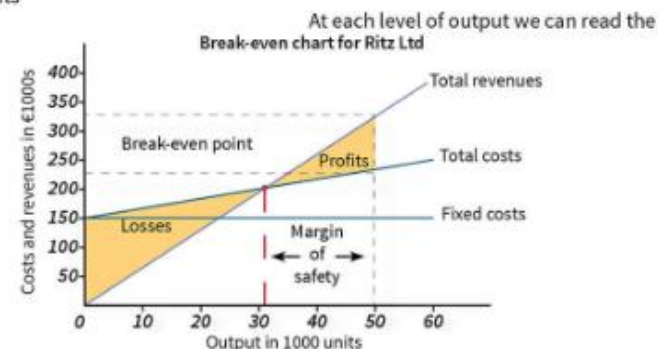
- **Total revenue**
= quantity sold \times unit price
- **Total costs**
= fixed costs + variable costs
- **Contribution per unit**
= selling price – variable cost per unit
- **Break-even point:**
$$\frac{\text{fixed costs}}{\text{contribution per unit}} = \text{units}$$
- **Margin of safety:**
target output – break-even point
= units

Point to note:

The break-even point is the level of production at which total sales revenue equals total costs.

A break-even chart will show:

- All of the costs and revenues of the firm in visual form
- The break-even point where total costs = total revenues
- The margin of safety.



following from the chart:

- **Fixed costs**, from the fixed costs line
- **Total costs**, from the total costs line
- **Variable costs** (total cost – fixed cost)
- **Revenues** that would be earned, from the total revenue line
- **Losses** (if output is below the BEP)
- **Profits** (if output is above the BEP)

Remember

You should be able to draw a break-even chart from a set of figures given to you.

Careful labelling of the diagram is important. Make sure that you can explain the importance (uses) of a break-even chart.

Sources of assistance in developing new products

- **Advice, information, facilities and resources** are available from Enterprise Ireland, chambers of commerce and business incubation centres.
- Enterprise Ireland operates an **Enterprise Link Unit**, which is dedicated to directing entrepreneurs towards the information and assistance they need to successfully develop their businesses.
- **Feasibility study grants** are available from a number of agencies to assist in the development of new products, such as County Enterprise Boards, Area Partnership Companies and the LEADER programme.

Exam question

- 1 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

Illustrate by means of a break-even chart the following: (a) The break-even point, (b) Profit at forecast output, (c) The margin of safety at forecast output.

(2011, 20 marks)

Sample answer

(a) Contribution per unit = €20 – €10 = €10

$$\begin{aligned}\text{Break-even point} &= \frac{\text{total fixed costs}}{\text{contribution per unit}} \\ &= \frac{300,000}{10} = 30,000 \text{ units}\end{aligned}$$

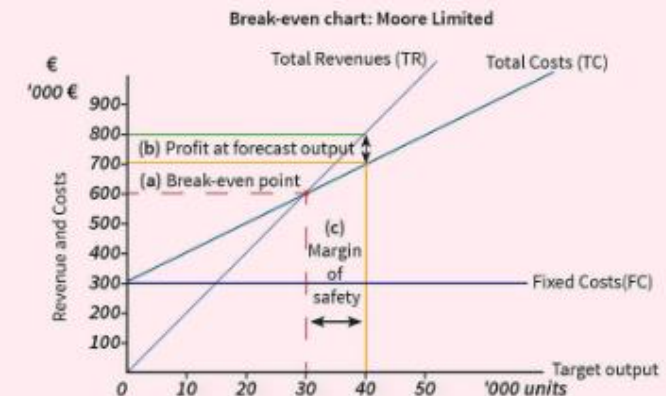
Units	S/P	V/ Costs	F/ Costs	T/ Costs	T/ Revenue	Profit
0	20	0	300,000	300,000	0	0
30,000	20	300,000	300,000	600,000	600,000	0
40,000	20	400,000	300,000	700,000	800,000	100,000

(b)

Profit at forecast output = €800,000 – €700,000 = €100,000

(c)

Margin of safety = 40,000 – 30,000 = 10,000 units



Marking scheme

Break-even chart showing : fixed costs (2 marks), total costs (2 marks), total revenues (4 marks), break-even point (2 marks), forecast profit (2 marks) margin of safety (3 marks), output in units (2 marks), revenue and costs (2 marks), main heading/title (1 mark)

Questions

Higher Level long questions

- 1 Illustrate two internal and two external sources of new a product idea. (2003, 25 marks)
- 2 Outline internal and external sources of product innovation for Kilronan Ltd. (2011, 20 marks)
- 3 Motor Manufacturing Ltd is considering the introduction of a new product. The business has provided the following figures:

Fixed costs = €200,000; Variable cost per unit = €5; Selling price = €15; Forecast output (sales) = 30,000 units

(i) Illustrate by means of a break-even chart: (a) Break-even point, (b) Profit at forecast output, (c) Margin of safety at forecast output.

(ii) Explain 'margin of safety'.

(2008, 30 marks)

Key-points!

- Sources of business opportunities
- Methods of market research
- Stages in developing a new product
- How to apply break-even analysis

Key-definitions!

break-even chart: A diagram showing the costs and revenues of a firm at different levels of output. It shows the point below which losses are made and above which profits are made, i.e. the break-even point.

desk research: A form of market research where information is collected from existing sources, e.g. books, reports, internet sites.

feasibility study: An investigation of a proposed new product to show it can be successfully produced and sold at a profit.

field research: A form of market research where data is collected in the marketplace from consumers.

fixed costs: Set amounts of money that must be paid by a business regardless of the quantity of goods they produce, e.g. the rent for the factory.

margin of safety: The difference between a firm's target output level and its break-even level of output. It shows how much it can fall short of its target and still not lose money. (Part of break-even analysis.)

market research: The collection of data on the market for a product so that management can make good decisions about the marketing of the product.

networking: Refers to businesspeople getting to know as many people as possible in their business area so that they can use those contacts to help them in their business dealings in the future.

prototype: A working example of a proposed new product that proves the product can be made and allows the firm to test it and to work out costings for its manufacture.

research and development (R&D): Companies employ engineers and scientists to come up with new products, materials or ways of manufacturing which will ensure the success of the firm in the future.

variable costs: The expenses of producing and selling a product which increase as the level of output increases, e.g. raw material and labour costs.