

# DP IB Business Management: HL



Your notes

## 4.1 Introduction to Marketing

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## Marketing & Markets

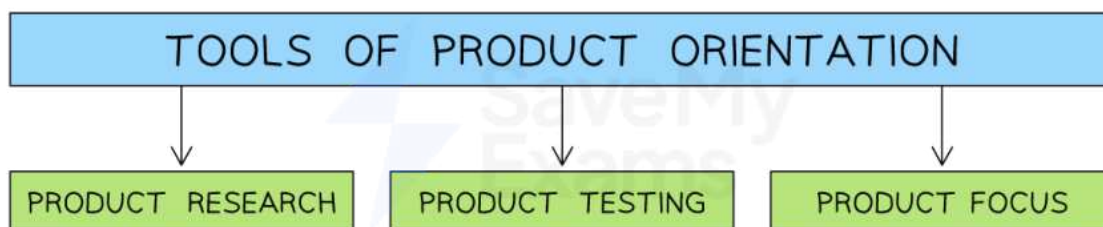
# An Introduction to Marketing

- A market is any place where **buyers and sellers can meet to conclude a transaction** e.g. [amazon.co.uk](https://www.amazon.co.uk) or a shopping mall
  - **Different markets** have different characteristics and are affected differently by changes
- **The aim of marketing is to help identify, anticipate and satisfy consumer needs and wants profitably**
  - Needs are considered to be **essential** e.g. shelter or food
  - Wants are desires which are **non-essential**, even if consumers consider them to be essential e.g. Nike trainers
- **Market research** is the process of **systematically gathering data** from consumers, which can be used to influence business decisions
  - **Market research** is essential in helping businesses identify products/services they can develop in response to the **needs and wants** of their customers

# Market Orientation Versus Product Orientation

- **Product orientation** is an approach to marketing that **focuses on the characteristics of the product** rather than the needs of the consumer
  - The **emphasis** will be **on creating a product first and then finding a market**
  - The business has a belief that the product is superior i.e. it will sell itself
  - One problem with being **too product orientated** is that over time your business may move further and further away from **what the market is looking for**, thus increasing the risk of business failure
  - E.g. Gillette's razors can be classed as a **product oriented business** as the business focuses on the quality of its products and regular innovations aim to increase sales

## Diagram: tools of product orientation



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**Product orientation is an approach often used by inventors who research, test and produce a product well before market research has taken place**

- **Market orientation** is an approach to marketing that focuses on the **needs of consumers** and uses this information to design products that meet those needs
  - **Consumers** are **at the centre of marketing decisions**
  - **Products** will be **developed** which **respond to consumer needs**
  - The result of market orientation is that the firm will benefit from increased demand, increased profits, and **a valued brand image** as its products become more desirable
  - E.g. Universities often develop new courses based on the feedback they receive from students and employers

## Diagram: tools of market orientation



**Market orientation aims to develop products to meet consumer needs identified during the market research process**

## Market share

- The size of a market can be measured through **sales volume or sales value**
  - Sales volume is the **number of products** sold i.e. the physical number of units sold
  - **Sales revenue = price x quantity sold** i.e. the financial value of the units sold
- **The market share** that a business enjoys is the **proportion of the total sales** of a product/service as a proportion of the size of the market as a whole
  - E.g. Tesco has 26% of the UK grocery market
- **Market share** is expressed as a percentage and is calculated using the formula

$$\frac{\text{Sales of a business (volume or value)}}{\text{Market size (volume or value)}} \times 100$$

- An **increase in market share** can indicate that a business has made **effective use of marketing strategies** to increase sales and **gain customers from competitors**



Your notes



### Worked Example

In 2022 the UK coffee shop/cafe market was worth £4.6bn. Sales of Starbucks Coffee were £328m in 2022.

Using the data calculate, to 2 decimal places, the market share of Starbucks Coffee in the coffee shop/café market. You are advised to show your workings.

[4 marks]

Answer:

#### Step 1: Identify annual sales of Starbucks Coffee

£328m [1 mark]

#### Step 2: Identify the total size of the coffee shop/cafe market

£4.6bn [1 mark]

#### Step 3: Substitute figures into the formula

$$\begin{aligned} & \frac{\text{Sales of a business}}{\text{Market size}} \times 100 \\ & = \frac{\text{£ 328 m}}{\text{£ 4.6 bn}} \times 100 \end{aligned} \quad [1 \text{ mark}]$$

#### Step 4: Present the answer to two decimal places

7.13% [1 mark]



### Examiner Tips and Tricks

By providing the formula and showing your working out, even if you do not get the right answer you will still be able to gain some marks.

## Market Growth



Your notes

- Market growth is the **increase in the overall size, value or volume of a market** over a period of time, usually expressed as a percentage
  - This metric considers the size of the whole market/industry as opposed to a single firm's share of the market
- Some common ways to measure market growth include **sales revenue, sales volume** or the **number of customers**
- If market growth is
  - Positive**, the market is **getting bigger** (expanding)
  - Negative**, the market is **getting smaller** (contracting)
- Market growth is expressed as a percentage and calculated using the formula

$$\text{Market growth} = \frac{\text{This year's market sales} - \text{Last year's market sales}}{\text{Last year's market sales}} \times 100$$



### Worked Example

In 2021 worldwide sales of plug-in hybrid vehicles was 1.94 million units. By 2022 sales had increased to 2.84 million units.

Calculate the rate of market growth in the plug-in hybrid vehicles market. **[2 marks]**

Answer:

**Step 1 – Deduct 2021's sales from 2022's sales**

$$2.84 \text{ million} - 1.94 \text{ million} = 0.90 \text{ million}$$

**Step 2 – Divide the outcome by 2021's sales**

$$\frac{0.90 \text{ million}}{1.94 \text{ million}} = 0.4639 \text{ [1 mark]}$$

**Step 3 – Multiply the outcome by 100 to find the percentage growth rate**

$$0.4639 \times 100 = 46.39\% \text{ [1 mark]}$$

- Market growth provides an incentive **for businesses** looking to expand, increase sales and generate higher revenue

- Businesses are often attracted to the potential of growing markets - and they can **become increasingly competitive** quite rapidly

## Diagram: reasons for market growth



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*Market growth can vary significantly across industries and can occur for a range of reasons*



### Examiner Tips and Tricks

You may be asked to calculate the sales in a market given a certain growth rate. In simple terms you are being asked to calculate a percentage increase.

For example, in 2022 a niche market had total sales of \$850,000. This was expected to grow by 15% in 2023.

- To calculate expected market sales in 2023 you must first find 15% of \$850,000:

$$0.15 \times \$850,000 = \$127,500$$

- Then add this amount to 2022's sales:

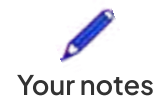
$$\$850,000 + \$127,500 = \$977,500$$

So, with a market growth rate of 15%, market sales in 2023 are predicted to be \$977,500.

## Niche Markets & Mass Markets



Your notes



- In **niche markets**, products are aimed at a subset of the larger market, e.g. gluten free products
  - **Niche marketing** occurs when businesses identify and satisfy the demands of a **small group of consumers** within the wider market
  - Production usually happens on a **small scale**
- In **mass markets**, products are aimed at broad **market segments** e.g. Kellogg's Cornflakes is an example of a breakfast cereal aimed at the mass market
  - Market segments are groups of consumers who share similar characteristics e.g. age, lifestyle, etc.
  - **Mass marketing** occurs when businesses sell their products to most of the available market
  - Production usually happens on a **large scale**

#### Characteristics of Niche Markets & Mass Markets

Niche Markets	Mass Markets
<ul style="list-style-type: none"> <li>▪ Products are <b>more specialised</b> and unique as they are aimed at narrow market segments                             <ul style="list-style-type: none"> <li>▪ E.g. <b>Louis Vuitton</b> is an example of a fashion company that aims its products at a <b>niche market</b></li> </ul> </li> <li>▪ <b>High average costs</b> due to small scale production                             <ul style="list-style-type: none"> <li>▪ They do not benefit from <b>economies of scale</b></li> </ul> </li> <li>▪ High prices make products less affordable and lead to <b>lower sales volumes</b></li> <li>▪ High prices can allow businesses to earn higher <b>profit margins</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Products are <b>less unique</b> as they are aimed at broad market segments                             <ul style="list-style-type: none"> <li>▪ E.g. <b>Primark</b> is an example of a clothing company that focuses its product on the mass market</li> </ul> </li> <li>▪ <b>Low average costs</b> due large scale production <b>economies of scale</b></li> <li>▪ Low prices lead to <b>greater affordability</b> and higher sales volumes</li> <li>▪ Low prices lead to <b>lower profit margins</b></li> </ul>



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## Market Share & Growth

### Market Share

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[4 marks]

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[1 mark]

##### Step 2: Identify the total size of the coffee shop/cafe market

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[1 mark]

##### Step 3: Substitute figures into the formula





Your notes

$$\frac{\text{Sales of a business}}{\text{Market size}} \times 100$$

$$= \frac{\text{£ 328 m}}{\text{£ 4.6 bn}} \times 100$$

[1 mark]

**Step 4: Present the answer to two decimal places**

7.13 %

[1 mark]



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Your notes

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[1 mark]

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[1 mark]

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$$\$850,000 + \$127,500 = \$977,500$$

So, with a market growth rate of 15%, market sales in 2023 are predicted to be \$977,500.

## Market Leadership

- Market leadership is a businesses **ability to maintain the largest share** of a specific market or industry
  - It can refer to a **product, brand or organisation**
  - It is a key way to **measure business success**



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- Most industries are **dominated by a small number of large businesses** that control a large proportion of market share
  - These markets are called **oligopolies**
  - **Market concentration** measures how competitive these markets are
    - A **high market concentration** is where market leaders have a very **high combined market share**
      - These markets are **not very competitive**
      - Examples include **energy supply** and **textbook publishing**
    - A **low market concentration** is where **market share is spread** across market leaders and smaller competitors
      - These markets tend to be **more competitive**
      - Examples include **UK supermarkets** and **travel agencies**
- Market leadership has several important advantages

#### Advantages of Market Leadership

Advantage	Explanation
<b>Brand Recognition</b>	<ul style="list-style-type: none"> <li>▪ Market leaders are often the <b>most recognised and trusted brands</b> in their industry</li> <li>▪ This can lead to customer loyalty, being the buying preference and long product life cycles</li> <li>▪ It also provides opportunities for <b>upselling</b></li> <li>▪ In 2022, three out of ten of the the UK's top confectionery products were sold by market leader Cadbury</li> </ul>
<b>Economies of Scale</b>	<ul style="list-style-type: none"> <li>▪ Market leaders usually <b>make and sell greater quantities</b> than rivals</li> <li>▪ Greater scale lowers production costs and can lead to higher profit margins</li> <li>▪ Economies of scale allow Swedish furniture retailer IKEA to sell its vast range of homeware and lifestyle products at significantly lower prices than competitors</li> </ul>



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<p><b>Innovation and Resources</b></p>	<ul style="list-style-type: none"> <li>Market leaders typically have finance to invest in research and development</li> <li>This allows them to <b>innovate</b> to stay ahead of competitors</li> <li>In 2022, Apple spent around \$3bn more than its closest rival Huawei on research and development</li> </ul>
<p><b>Distribution Channels</b></p>	<ul style="list-style-type: none"> <li>Leading companies usually have significant presence in major retailers</li> <li>This makes it easier for to reach customers and expand their market presence</li> <li>In November 2023, Heinz's new pickle-flavoured ketchup was launched in more than 4,000 Tesco stores across the UK</li> </ul>
<p><b>Competitive Advantage</b></p>	<ul style="list-style-type: none"> <li>Market leaders may have a competitive advantage in terms of cost, quality or technology</li> <li>This makes it difficult for competitors to catch up</li> <li>Amazon is expanding its Prime Air drone delivery service to the UK and Italy in 2014, allowing some customers to receive orders within one hour</li> </ul>
<p><b>Attractive to highly-qualified job applicants</b></p>	<ul style="list-style-type: none"> <li>Employees feel proud to be associated with the brand</li> <li>High quality Human Resources can provide a competitive advantage</li> <li>Large, market-leading businesses such as Google often rank highly in employee satisfaction surveys</li> </ul>

- Market leaders often face **significant pressure**
  - To **maintain high market share** by repeating successes
    - As a leading high street retailer, M&S's progress is keenly watched by the media and shareholders
  - To **see off challenges** from competitors