



HL IB Business Management



Your notes

4.1 Introduction to Marketing

Contents

- * Marketing & Markets
- * Market Share & Growth

Marketing & Markets



Your notes

An Introduction to Marketing

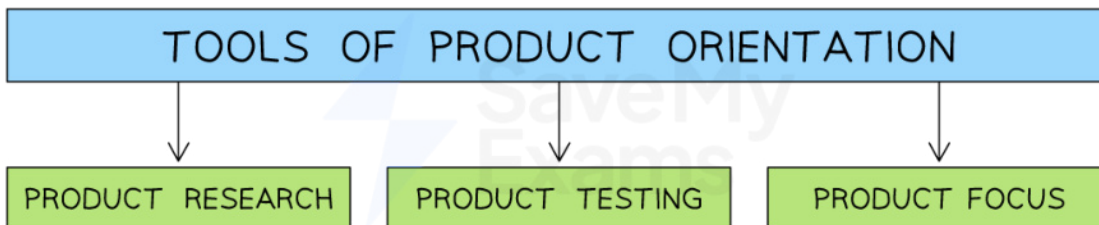
- A market is any place where **buyers and sellers can meet to conclude a transaction** e.g. amazon.co.uk or a shopping mall
- **The aim of marketing is to help identify, anticipate and satisfy consumer needs and wants profitably**
 - Needs are considered to be **essential** e.g. shelter or food
 - Wants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



Your notes

Market Orientation Versus Product Orientation

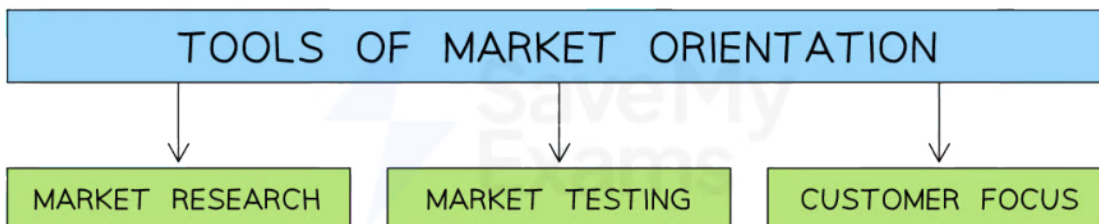
- **Product orientation** is an approach to marketing that **focuses on the characteristics of the product** rather than the needs of the consumer
 - The **emphasis** will be **on creating a product first and then finding a market**
 - The business has a belief that the product is superior i.e. it will 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



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A 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 customer 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



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



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Niche Markets & Mass Markets

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

Examiner Tip

Profitable niche markets rarely remain small for long - their potential attracts competition which increases sales volumes

The market for energy drinks is a good example of this - initially targeted at sports-enthusiasts, it is now one of the largest soft drinks segments in the world

Market Share & Growth



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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** can be 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**



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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]

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

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

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

[1 mark]

Step 4: Present the answer to two decimal places

7.13%

[1 mark]

Examiner Tip

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.



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Market Growth

- 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**
- Market growth is calculated using the formula

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

- If the growth rate is **positive** the market is **getting bigger** (expanding)
- If the growth rate is **negative** the market is **getting smaller** (contracting)

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]

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

$$\frac{0.90 \text{ million}}{1.94 \text{ million}} = 0.4639$$

[1 mark]

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

$$0.4639 \times 100 = 46.39\%$$

[1 mark]

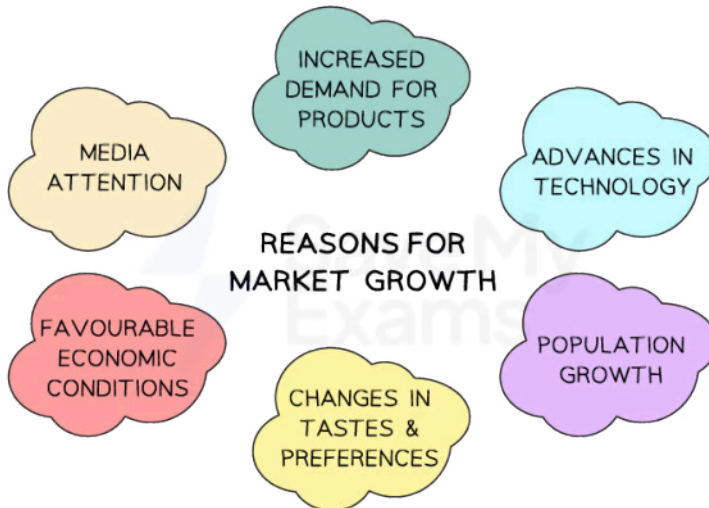
- Market growth provides an incentive **for businesses** looking to expand, increase sales and generate higher revenue

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



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Diagram with Reasons for Market Growth



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

Examiner Tip

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.



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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**

- 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
Brand Recognition	<ul style="list-style-type: none"> ▪ Market leaders are often the most recognised and trusted brands in their industry ▪ This can lead to customer loyalty, being the buying preference and long product life cycles ▪ It also provides opportunities for upselling ▪ In 2022 three out of ten of the the UK's top confectionery products were sold by market leader Cadbury
Economies of Scale	<ul style="list-style-type: none"> ▪ Market leaders usually make and sell greater quantities than rivals ▪ Greater scale lowers production costs and can lead to higher profit margins ▪ Economies of scale allow Swedish furniture retailer IKEA to sell its vast range of homeware and lifestyle products at significantly lower prices than competitors
Innovation and Resources	<ul style="list-style-type: none"> ▪ Market leaders typically have finance to invest in research and development ▪ This allows them to innovate to stay ahead of competitors ▪ In 2022 Apple spent around \$3bn more than its closest rival Huawei on research and development



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Distribution Channels	<ul style="list-style-type: none">▪ Leading companies usually have significant presence in major retailers▪ This makes it easier for to reach customers and expand their market presence▪ In November 2023 Heinz's new pickle-flavoured ketchup was launched in more than 4,000 Tesco stores across the UK
Competitive Advantage	<ul style="list-style-type: none">▪ Market leaders may have a competitive advantage in terms of cost, quality or technology▪ This makes it difficult for competitors to catch up▪ 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
Attractive to highly-qualified job applicants	<ul style="list-style-type: none">▪ Employees feel proud to be associated with the brand▪ High quality Human Resources can provide a competitive advantage▪ Large, market-leading businesses such as Google often rank highly in employee satisfaction surveys

- 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