Marketing

A-Level Business

The role of marketing

Marketing is the job of finding out what customers want, then making and selling products that meet those wants at a profit. Good marketing links the business to its **market** (all the buyers and sellers of a product).

A business can be:

- **product-orientated** – it focuses on the product first and hopes customers will buy it. This suits new or technical products.
- **market-orientated** – it finds out what customers want first, then makes it. This lowers the risk of failure.

Customer relationship marketing (CRM) means building long-term links with customers so they come back again. Keeping a customer is cheaper than finding a new one.

Market size, growth and share

- **market size** – the total sales of all firms in a market, by value or by number of units.
- **market growth** – how fast the market is getting bigger, shown as a percentage.
- **market share** – one firm's sales as a percentage of the total market:

$$\text{market share} = \frac{\text{firm's sales}}{\text{total market sales}} \times 100\%$$

A rising market share is a sign of strong marketing.

> **Worked example.** A firm sells £4 million of goods in a market worth £50 million in total. Find its market share.

$$\text{market share} = \frac{4}{50} \times 100\% = 8\%.$$

If the whole market grows but the firm's sales stay at £4 million, its market share **falls** – so a firm can sell the same amount yet lose ground to faster-growing rivals.

Mass and niche markets

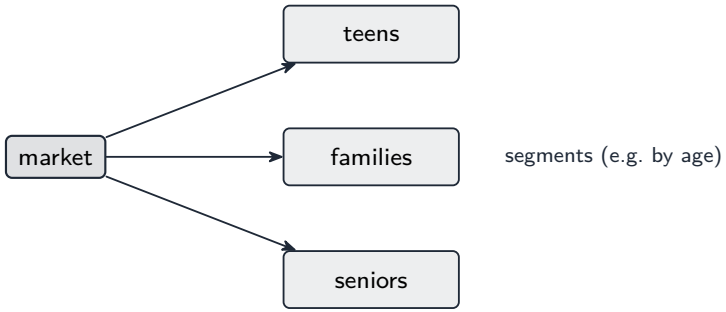
- a **mass market** is large, with products aimed at most buyers (e.g. soft drinks). Sales are high, but competition is strong.
- a **niche market** is a small part of a market with special needs (e.g. left-handed tools). Competition is weaker, but sales are smaller.

A mass market targets everyone; a niche serves a small specialist group

Market segmentation

Shelf space is a marketing decision: segment, position, then price and promote

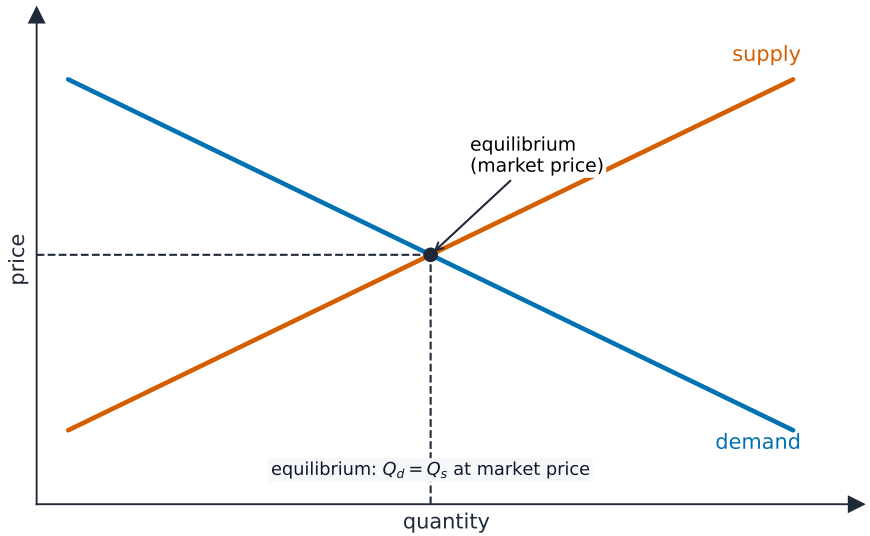
Market segmentation means splitting a market into groups (**segments**) of buyers who are alike. Common ways to segment are by age, income, gender, location, and lifestyle. Segmentation lets a firm aim the right product and message at each group, which raises sales and cuts waste.



Splitting a market into segments by age, income and lifestyle

Demand, supply and elasticity

Demand is how much of a product buyers will buy at each price. **Supply** is how much sellers will offer at each price. Usually, when price falls, demand rises.



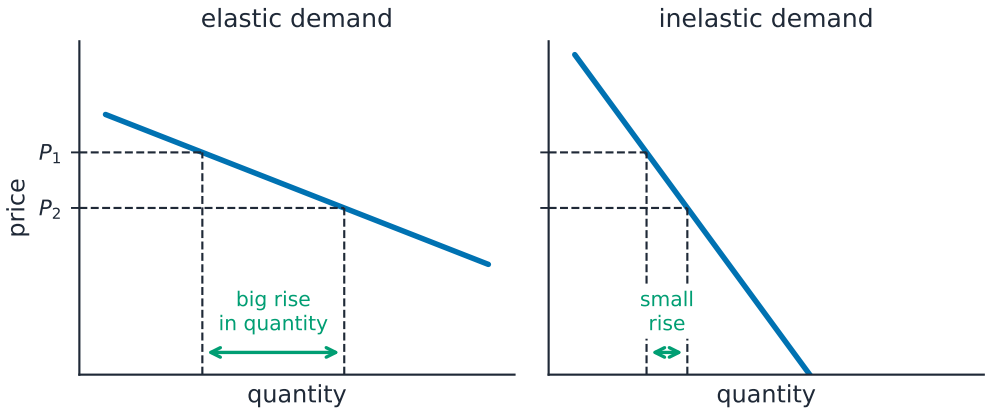
Supply and demand meet at the equilibrium market price

Elasticity measures how strongly demand reacts to a change. You should know three types.

Price elasticity of demand (PED) measures how demand reacts to a price change:

$$\text{PED} = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

- if PED is greater than 1, demand is **price elastic** – a small price cut raises sales a lot, so lowering price can raise revenue.
- if PED is less than 1, demand is **price inelastic** – demand changes little, so raising price can raise revenue.



$$\text{PED} = \frac{\%\,\Delta Q_d}{\%\,\Delta P} \quad \cdot \quad |PED| > 1 \text{ elastic} \quad \cdot \quad |PED| < 1 \text{ inelastic}$$

The same price fall raises quantity a lot when demand is elastic, only a little when inelastic

Income elasticity of demand (YED) measures how demand reacts to a change in customers' income. Luxury goods react strongly; basic goods react weakly.

Cross elasticity of demand (XED) measures how the demand for one product reacts to a price change of another. It is positive for **substitutes** (e.g. tea and coffee) and negative for **complements** (e.g. cars and fuel).

Elasticity is useful because it helps a firm predict how a price change will affect sales and revenue.

Market research

Market research is collecting and studying information about customers, **competitors** and the market.

- **primary research** – new information you collect yourself, by surveys, interviews or observation. It fits your exact needs, but costs more and takes time.
- **secondary research** – information that already exists, such as reports, websites and sales records. It is cheap and quick, but may be old or not exactly right.

Data can be:

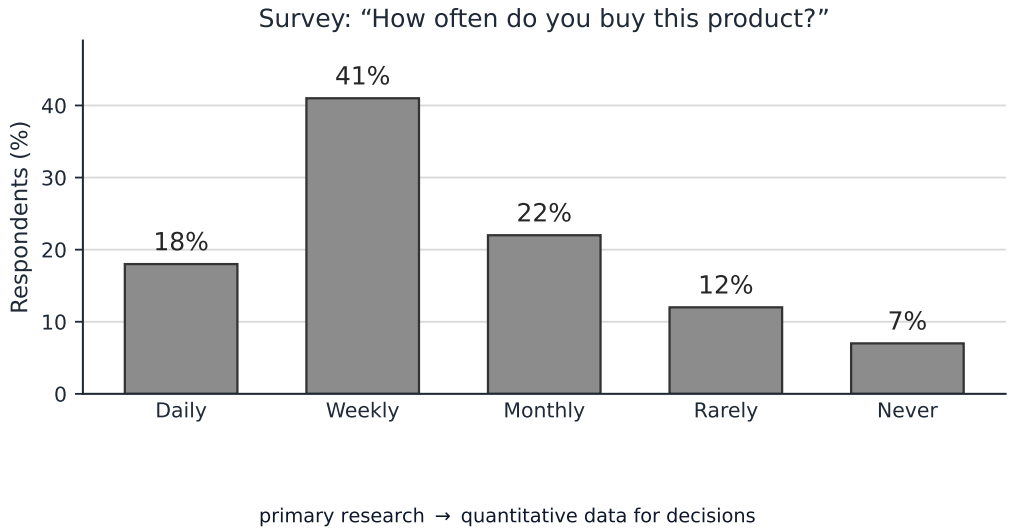
- **quantitative data** – facts in numbers (e.g. "60% buy weekly"). Easy to compare.
- **qualitative data** – opinions and reasons (e.g. "why people like the brand"). Gives deeper understanding.

■ Sampling and reliability

A **sample** is the small group of people asked, chosen to stand for the whole market. **Sampling** methods include:

- **random sampling** – everyone has an equal chance of being picked.
- **quota sampling** – set numbers from each group are asked.
- **stratified sampling** – the sample copies the make-up of the whole market.

A larger, well-chosen sample gives more **reliable** results. Poor sampling can cause **bias**, which makes the findings wrong. Results are often shown in tables and charts, then read carefully to guide decisions.



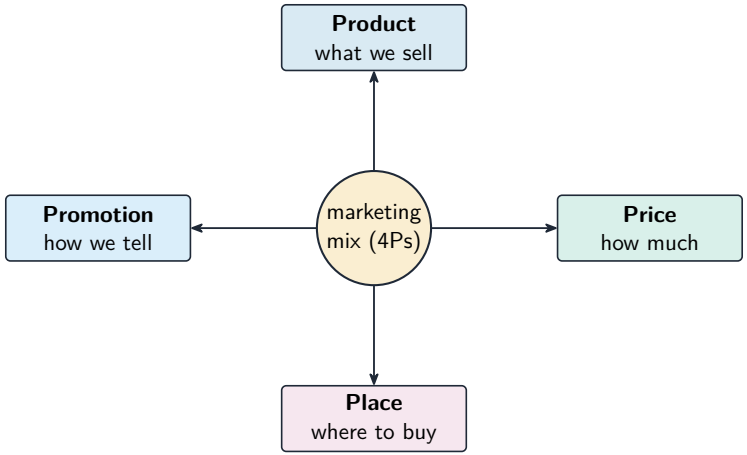
Primary research → quantitative data that guides marketing decisions

The marketing mix

A branded shop window – branding and place help sell the product.

The **marketing mix** is the set of choices a firm makes to sell a product. It is often called the **4Ps**:

P	Question it answers
product	what are we selling?
price	how much do we charge?
place	where and how do customers buy it?
promotion	how do we tell customers about it?



The marketing mix combines the four Ps

The four parts must work together. For example, a high price needs high quality and a good image. Making the parts fit each other is called **integration**.

Product

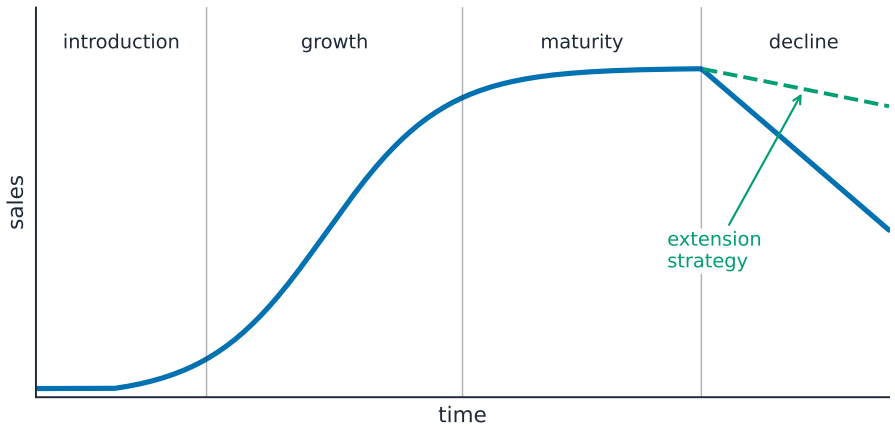
A good product is the heart of the mix.

Product development is the work of designing and improving products to meet customer needs and beat rivals.

■ The product life cycle

The **product life cycle** shows the sales of a product over time, in four stages:

1. **introduction** – launch; low sales, high promotion cost.
2. **growth** – sales rise quickly.
3. **maturity** – sales reach their peak and level off.
4. **decline** – sales fall as tastes change.



introduction → growth → maturity → decline (sales over time)

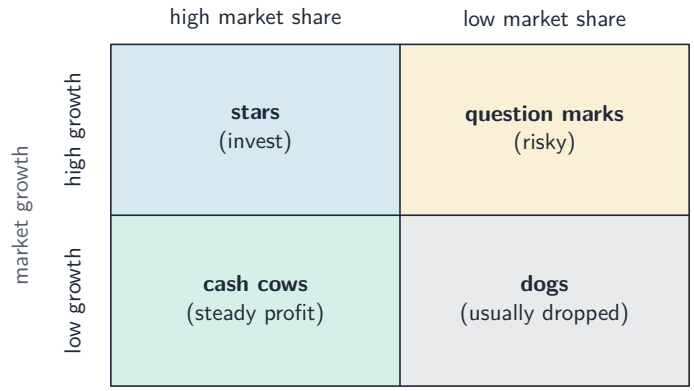
Sales of a product over its four life-cycle stages, with an extension strategy in maturity

To keep sales up in maturity, firms use **extension strategies**, such as new packaging, new uses, or selling in new markets.

■ The product portfolio (Boston Matrix)

The **product portfolio** is the full range of products a firm sells. The **Boston Matrix** sorts products by market share and market growth:

	High market growth	Low market growth
High share	**stars**	**cash cows**
Low share	**question marks**	**dogs**



The Boston Matrix sorts products by market share and market growth

Stars need investment but may become cash cows. Cash cows bring steady profit. Question marks are risky. Dogs are usually dropped.

■ Branding

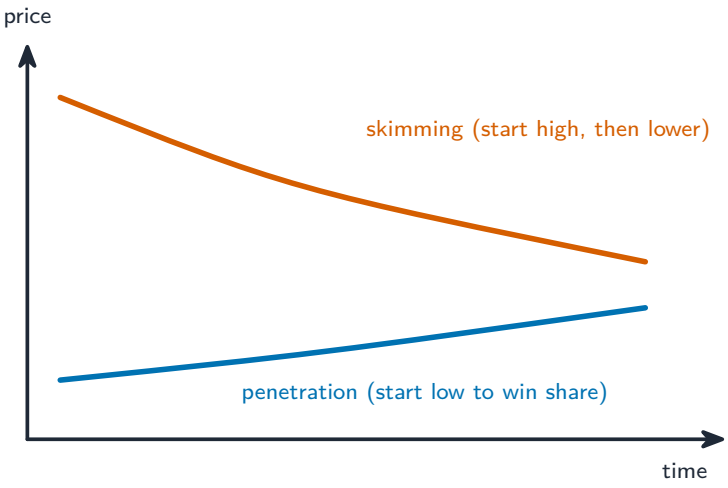
Branding gives a product a name, design and image that customers recognise. A strong brand builds **loyalty**, lets the firm charge more, and makes new products easier to launch.

Price

Choosing a price is a key decision. The main methods and strategies are:

Method / strategy	How it works
cost-plus pricing	add a fixed profit margin to the unit cost
penetration pricing	set a low price to enter a market and win share
price skimming	set a high price first for a new, special product, then lower it
competitive pricing	set a price close to rivals' prices
price discrimination	charge different prices to different groups (e.g. peak vs off-peak)
dynamic pricing	change the price often as demand changes
psychological pricing	use prices like $9.99 that feel lower

The best price depends on costs, competitors, the product's life-cycle stage, and how price elastic demand is.

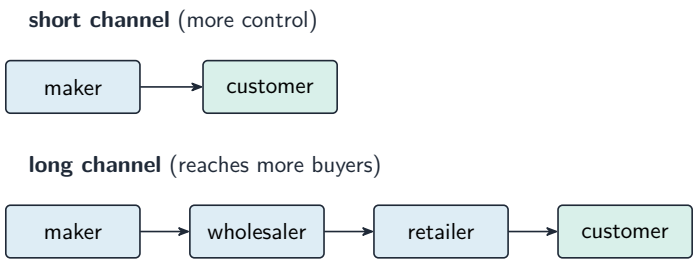


Two launch strategies over time: penetration sets a low price to win share; skimming sets a high price first, then lowers it

Place and promotion

Advertising on giant screens – promotion is part of the marketing mix.

Place is how the product reaches the customer, through a **distribution channel**. A short channel (maker → customer) gives more control; a longer channel (maker → **wholesaler** → shop → customer) reaches more buyers.



A short channel gives more control; a longer channel reaches more buyers

Promotion tells customers about a product and persuades them to buy. It is split into:

- **above-the-line promotion** – paid **advertising** in mass media, such as TV and online ads, aimed at a wide audience.
- **below-the-line promotion** – targeted methods the firm controls, such as discounts, free samples and direct mail.

Digital marketing and **e-commerce** (buying and selling online) now play a huge role. They let small firms reach world markets cheaply, target adverts to the right people, and sell at any time of day.

Exam tips

- Calculate **market share** and **market growth** as percentages; a firm can grow yet lose share in a faster-growing market.
- Use **price elasticity of demand** to decide pricing: raise price when demand is inelastic (revenue rises), cut it when elastic.
- Distinguish **primary vs secondary** and **quantitative vs qualitative** research, and comment on sampling reliability.
- Treat the **marketing mix (4Ps)** as a coordinated set – each P should support the others.

Vocabulary card meanings

customer relationship marketing: Building long-term links with buyers rather than chasing one-off sales. market segmentation: Splitting buyers into groups that share similar wants. segments: Groups of buyers who share similar wants. price elastic: Quantity demanded changes by a larger percentage than the price. price inelastic: Quantity demanded changes by a smaller percentage than the price. competitors: Other firms that sell to the same buyers. reliable: Able to be trusted to work or to tell the truth. Boston Matrix: A four-box chart that places products by their relative share

of a market and by how fast that market is growing. stars: Products with a high share of a fast-growing market. cash cows: Products with a high share of a slow-growing market. question marks: Products with a low share of a fast-growing market. dogs: Products with a low share of a slow-growing market. psychological pricing: Setting a price, such as 9.99, to influence how buyers feel about it. distribution channel: The route a product takes from the producer to the buyer. wholesaler: A firm that buys in bulk from producers and sells on to shops. advertising: Paid messages that promote a product to many people at once. digital marketing: Promotion that uses the internet, apps or social media. e-commerce: Buying and selling through the internet.