Exercise walk-through

The nature of marketing ▪ 3.1

eXercise

You must be able to

- explain market-orientated versus product-orientated approaches
- calculate **market share** and **PED**, and explain what they show
- analyse and evaluate niche versus mass markets and segmentation

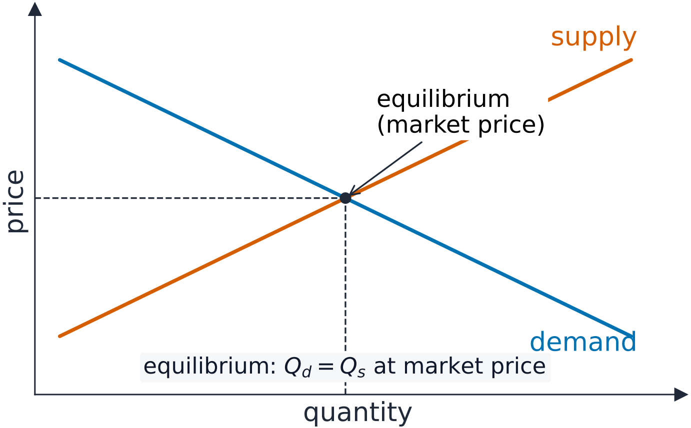
Method — Markets, share and elasticity

$$\text{market share} = \frac{\text{firm's sales}}{\text{total market sales}} \times 100\% \qquad \text{PED} = \frac{\%\ \Delta\ \text{quantity}}{\%\ \Delta\ \text{price}}$$

- **Market share worked:** a firm sells \$4m in a \$20m market $\rightarrow \frac{4}{20} \times 100 = 20\%$.
- **PED worked:** price falls 10%, quantity rises 25% $\rightarrow$ PED $= \frac{25}{10} = 2.5 \rightarrow$ **elastic**, so a price cut **raises** revenue.

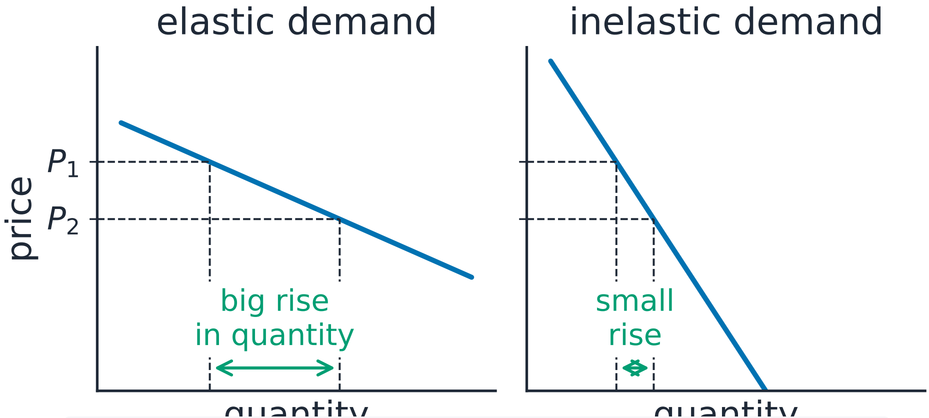
Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

Method — Markets, share and elasticity



Supply and demand meet at the equilibrium market price

Method — Markets, share and elasticity



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

Practice 2.1 ▪ 2 marks

Define the term *market share*.

Solution 2.1

Method: Markets, share and elasticity

Worked steps

a firm's sales as a percentage of the total sales in its market (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

A firm sells \$3m of goods in a market worth \$15m in total. Calculate its market share.

Solution 2.2

Method: Markets, share and elasticity

Worked steps

$\frac{3}{15} \times 100 = 20\%$ (2; award 1 for a correct method with the wrong figure).

Practice 2.3 ▪ 2 marks

State the difference between a *mass market* and a *niche market*.

Solution 2.3

Worked steps

a mass market is large with products aimed at most buyers and strong competition; a niche market is a small segment with special needs and weaker competition (2 for a clear difference; 1 for a partial idea).

Exam-style 3.1 ▪ 3 marks

Explain one benefit to a business of being **market-orientated**.

Solution 3.1

Method: Markets, share and elasticity

Worked steps

[3] **AO1** 1 — name a benefit (lower risk of failure; products match customer wants; higher sales). **AO2** up to 2 — develop it, e.g. researching wants first means the product is more likely to sell $\rightarrow$ fewer unsold items $\rightarrow$ less wasted cost (2 developed / 1 limited).

Exam-style 3.2 ▪ 8 marks

Analyse two benefits to a business of segmenting its market.

Solution 3.2

Method: Markets, share and elasticity

Worked steps

[8] For **each** of two benefits: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *targeting*: the right product and message reach each group → higher response and sales. *Less waste*: money is not spent on customers who will not buy → lower marketing cost per sale. Maximum 4 per benefit, 8 total.

Exam-style 3.3 ▪ 12 marks

A new firm is deciding whether to sell in a **niche** market or a **mass** market. Evaluate this decision.

Solution 3.3

Method: Markets, share and elasticity

Worked steps

[12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Niche:** less competition, loyal customers, can charge more — but small sales and high risk if the niche shrinks. **Mass:** high sales volume and economies of scale — but strong competition and heavy marketing cost. Judgement: a new, small firm often starts in a niche it can serve well, then grows; the best choice depends on its resources, the competition and the size of the niche.