

# Marketing (4.1-4.6)

International Baccalaureate · IB Diploma · Business Management · HL

## Marketing

IB Diploma Programme Business Management HL, Unit 4 *Marketing* (first assessment 2024). This topic covers sections 4.1 to 4.6: the role of marketing, marketing planning, sales forecasting (HL), market research, the seven Ps of the marketing mix, and international marketing (HL). The worked examples use the course's repair business. Its city has a market of 8,000 car repairs a month, and the business does 2,000 of them.

Luckin Coffee opened its first shop in Beijing in 2017. Within two years it had more shops in China than Starbucks. It did not win with better coffee alone. It used an app for every order, small pick-up shops instead of big cafés, and large discounts to win first-time buyers. Every one of those choices is a marketing decision: product, price, place and promotion. This topic shows how a business decides who its customers are and how to reach them.

### Must-know for this topic:

| Idea               | Key content                                                                                               |
|--------------------|-----------------------------------------------------------------------------------------------------------|
| orientation        | market orientation against product orientation                                                            |
| market share       | $\frac{\text{firm's sales}}{\text{total market sales}} \times 100$ : $2,000 \div 8,000 \times 100 = 25\%$ |
| planning           | segmentation, targeting, positioning; position map; USP                                                   |
| forecasting (HL)   | three-part moving average; seasonal variation = actual – trend                                            |
| research           | primary and secondary; qualitative and quantitative; sampling                                             |
| the 7Ps            | product, price, promotion, place, people, processes, physical evidence                                    |
| international (HL) | reasons; entry methods; standardise or adapt                                                              |

## The role of marketing

**Marketing** means finding out what customers want and supplying it at a profit. It links the business to its customers.

- A business with **market orientation** starts with customers: it researches what they want, then makes it. This is the usual approach today, because tastes change fast.

- A business with **product orientation** starts with the product: it makes what it is good at, then tries to sell it. This can work for new technology, where customers do not yet know what they want, but it is risky.

Social enterprises market too, but their aim may be to change behaviour (for example, to make people recycle) rather than to earn profit.

**Market share** is a firm's sales as a percentage of the whole market's sales.

**Worked example.** The city's garages do 8,000 repairs a month, and the repair business does 2,000. Its market share =  $2,000 \div 8,000 \times 100 = 25\%$ . If the market grows to 10,000 repairs and the business does 2,400, its sales rise by 20% but its market share falls to 24%. Rivals grew faster.

A high market share brings economies of scale, a strong brand and power over suppliers. The firm with the largest share is the **market leader**.

## Marketing planning

A **marketing plan** sets out the marketing objectives, the target market, the marketing mix, the budget and how success will be measured. Marketing objectives must fit the business's main objectives: for example, "raise market share from 25% to 30% in two years".

### ■ Segmentation, targeting and positioning

1. **Segmentation** : dividing a market into groups of customers with similar needs. Common ways: by **demographics** (age, income, gender), by geography, and by **psychographics** (lifestyle, values, interests).
2. **Targeting** : choosing which segments to serve. A **niche market** is a small, specialised segment; a **mass market** is a large one with similar needs.
3. **Positioning** : deciding how the product should be seen compared with rivals in the customer's mind.

A **position map** (perception map) places rival products on two features that customers care about, such as price and quality. It shows where competition is crowded and where there is a gap.



*A position map shows where rivals compete and where gaps exist*

A gap is not always a chance: there may be no customers there, or it may cost too much to serve. A business stands out through its **unique selling point** (USP): something rivals do not offer. The repair business's USP is a 24-hour repair promise with a free replacement car.

The **Ansoff matrix** (from the business management toolkit) shows four growth strategies and their risk:

|                  | Existing products                                         | New products                                                 |
|------------------|-----------------------------------------------------------|--------------------------------------------------------------|
| Existing markets | <b>Market penetration</b><br>sell more to the same market | <b>Product development</b><br>new product, same market       |
| New markets      | <b>Market development</b><br>same product, new market     | <b>Diversification</b><br>new product, new market (riskiest) |

Exam: risk rises toward diversification — new product × new market is highest risk

*Ansoff matrix: risk rises from market penetration to diversification*

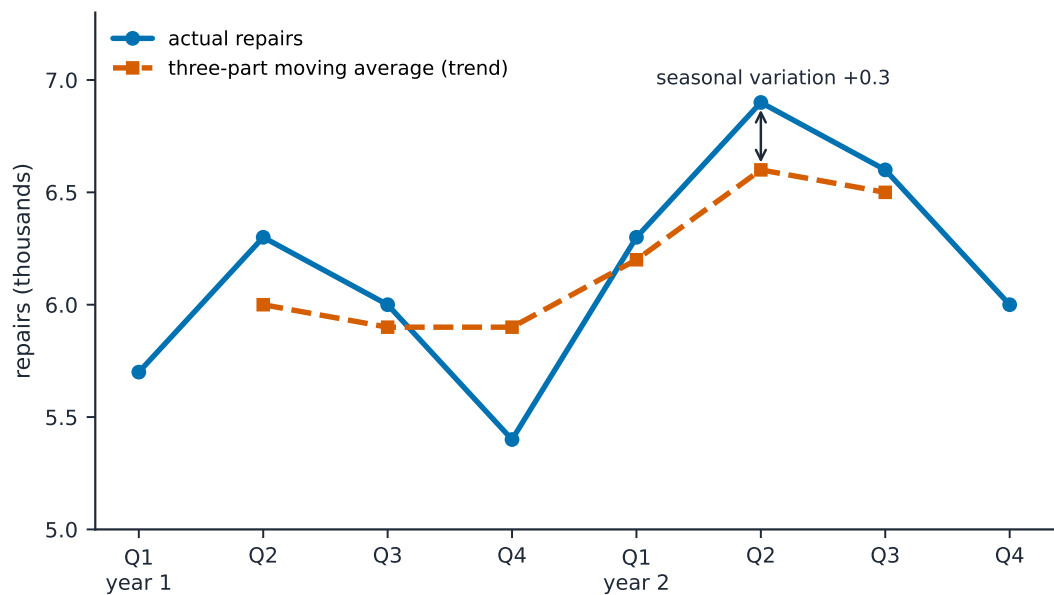
# Sales forecasting (HL)

A **sales forecast** predicts future sales. It helps the business plan its stock, staff, cash flow and production. A common method is the **moving average** : the average of a fixed number of periods, moved forward one period at a time. It smooths out short-term ups and downs so that the **trend** is clear.

**Worked example.** The repair business’s quarterly repairs (in thousands):

| Quarter                   | Y1<br>Q1 | Y1<br>Q2 | Y1<br>Q3 | Y1<br>Q4 | Y2<br>Q1 | Y2<br>Q2 | Y2<br>Q3 | Y2<br>Q4 |
|---------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| repairs                   | 5.7      | 6.3      | 6.0      | 5.4      | 6.3      | 6.9      | 6.6      | 6.0      |
| three-part moving average |          | 6.0      | 5.9      | 5.9      | 6.2      | 6.6      | 6.5      |          |
| seasonal variation        |          | +0.3     | +0.1     | −0.5     | +0.1     | +0.3     | +0.1     |          |

1. The first three-part moving average is  $(5.7 + 6.3 + 6.0) \div 3 = 6.0$ . It is placed in the middle quarter, Y1 Q2.
2. The next is  $(6.3 + 6.0 + 5.4) \div 3 = 5.9$ , placed in Y1 Q3, and so on.
3. The **seasonal variation** is the actual value minus the trend: in Y2 Q2,  $6.9 - 6.6 = +0.3$ . Repairs are above trend in the second quarter and below it in the fourth.



*The moving average shows the trend; actual sales swing around it with the seasons*

Besides seasonal variation, sales show **cyclical variation** (the business cycle) and **random variation** (one-off events such as a flood). Forecasts

are only as good as the past data. A new competitor or a recession can make any forecast wrong.

## Market research

**Market research** collects information about customers, competitors and markets to reduce the risk of decisions.

- **Primary research** collects new data for the business’s own purpose: **surveys**, interviews, **focus groups** (a small group discussing a product), observation and test marketing. It fits the question exactly and is up to date, but it is slow and costly.
- **Secondary research** uses data that already exists: government statistics, industry reports, newspapers, competitors’ websites and the firm’s own sales records. It is quick and cheap, but it may be out of date or collected for another purpose.

**Quantitative data** is numbers (“62% of drivers service their car once a year”). **Qualitative data** is opinions and reasons (“drivers distrust garages that do not explain the fault”). Good research uses both.

Researchers usually ask a **sample** instead of everyone:

| Sampling method      | How it works                                           | Weakness                            |
|----------------------|--------------------------------------------------------|-------------------------------------|
| random sampling      | everyone has an equal chance of being chosen           | needs a full list of the population |
| stratified sampling  | the sample matches the population’s groups (age, area) | needs data on the groups            |
| quota sampling       | the researcher fills a set number from each group      | not random, so bias is possible     |
| convenience sampling | whoever is easy to reach                               | often unrepresentative              |
| snowballing          | each person suggests others                            | biased towards one social circle    |

**Sampling error** happens when the sample does not represent the population, often because it is too small. Research can also be biased by leading questions. And collecting customer data online raises ethical questions about privacy and consent.

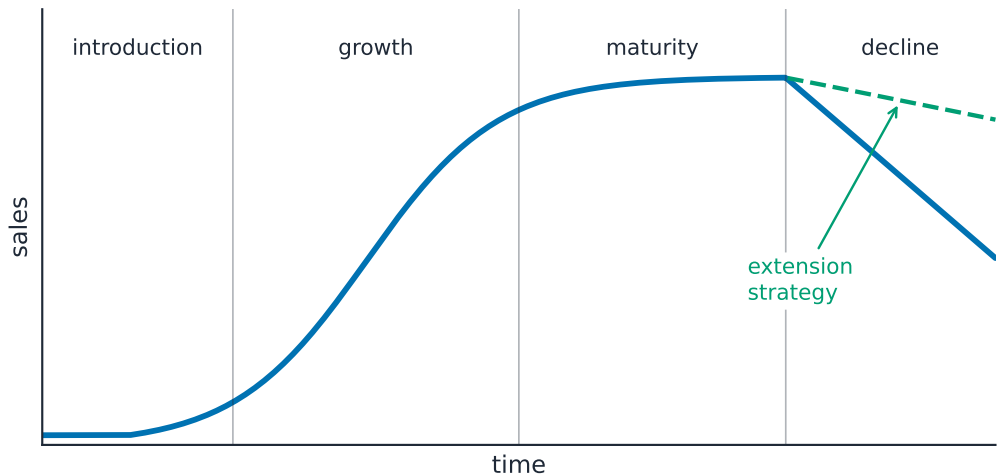
## The seven Ps of the marketing mix

The **marketing mix** is the set of decisions a business makes to sell its product. For goods there are four Ps: product, price, promotion and place. Services add three more: people, processes and physical evidence. All seven must fit together: a premium brand with a very low price confuses customers.

# ■ Product

## The product life cycle

shows the stages of a product's sales over time:



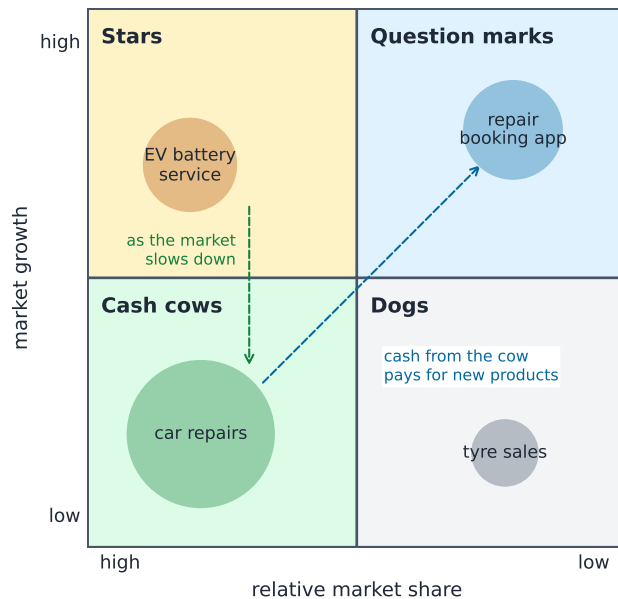
introduction → growth → maturity → decline (sales over time)

*Sales through introduction, growth, maturity and decline; an extension strategy can delay the decline*

| Stage        | Sales               | Cash flow         | Typical marketing                                   |
|--------------|---------------------|-------------------|-----------------------------------------------------|
| development  | none                | negative          | research and testing                                |
| introduction | low, slow growth    | negative          | heavy promotion; skimming or penetration price      |
| growth       | rising fast         | turning positive  | more outlets; build the brand                       |
| maturity     | high, levelling off | strongly positive | compete on price and features; extension strategies |
| decline      | falling             | falling           | cut costs, then withdraw                            |

**Extension strategies** delay the decline: a new feature, a new design, a new market, or a new use.

The **Boston Consulting Group matrix** (BCG matrix) looks at a firm's whole range of products, its **product portfolio**, using market growth and relative market share:



*The repair business's products on the Boston matrix: the cash cow pays for the star and the question mark*

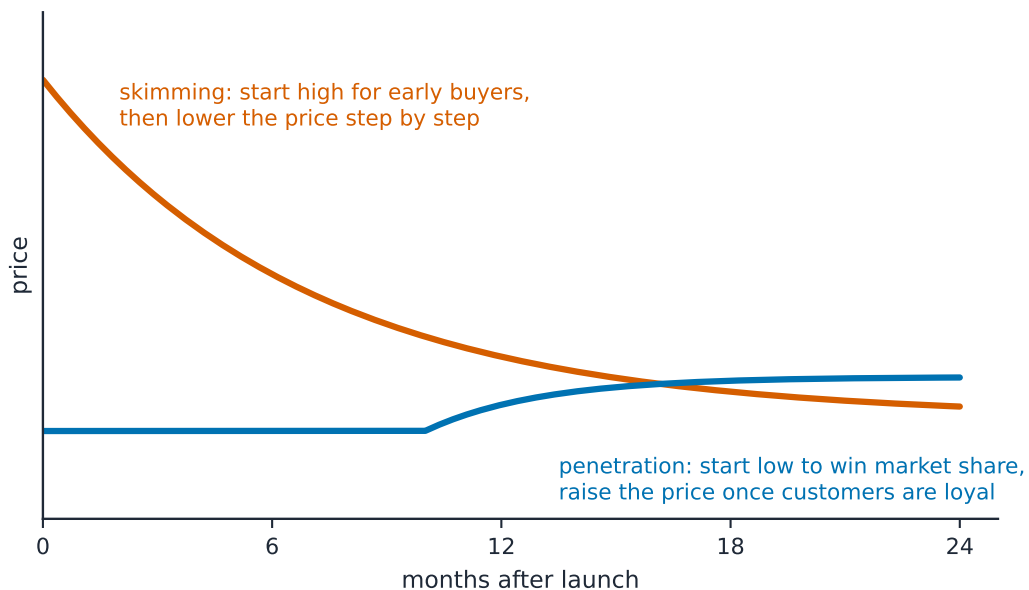
- **Stars** : high share of a fast-growing market. They need cash to keep growing. *EV battery servicing.*
- **Cash cows** : high share of a slow-growing market. They earn more cash than they need. *Ordinary car repairs.*
- **Question marks** : low share of a fast-growing market. Invest to build share, or drop them. *The new repair booking app.*
- **Dogs** : low share of a slow-growing market. Usually sold or closed. *Tyre sales, where large chains are much cheaper.*

A balanced portfolio uses the cash from cows to turn question marks into stars, which later become the next cash cows.

**Branding** gives a product a name, logo and identity. A strong brand builds **brand loyalty** and lets the firm charge more. Packaging protects the product, but also informs and attracts buyers.

## ■ Price

| Pricing method               | How it works                                                          | When it is used                       |
|------------------------------|-----------------------------------------------------------------------|---------------------------------------|
| <b>cost-plus pricing</b>     | average cost plus a fixed percentage                                  | simple; common in shops               |
| <b>penetration pricing</b>   | a low price at launch to win market share                             | mass markets; new firms               |
| <b>price skimming</b>        | a high price at launch, lowered over time                             | new technology with keen early buyers |
| <b>psychological pricing</b> | prices such as 99 instead of 100                                      | consumer goods                        |
| <b>loss leader</b>           | one item sold below cost to bring in customers                        | supermarkets                          |
| <b>price discrimination</b>  | different prices for different groups for the same product            | cinemas, airlines, student discounts  |
| <b>dynamic pricing</b>       | prices change with demand in real time                                | ride-hailing apps, hotels             |
| <b>competitive pricing</b>   | prices set close to rivals'                                           | many similar products                 |
| <b>contribution pricing</b>  | price covers the variable cost and adds something towards fixed costs | spare capacity                        |



*Skimming and penetration pricing move in opposite directions after launch*

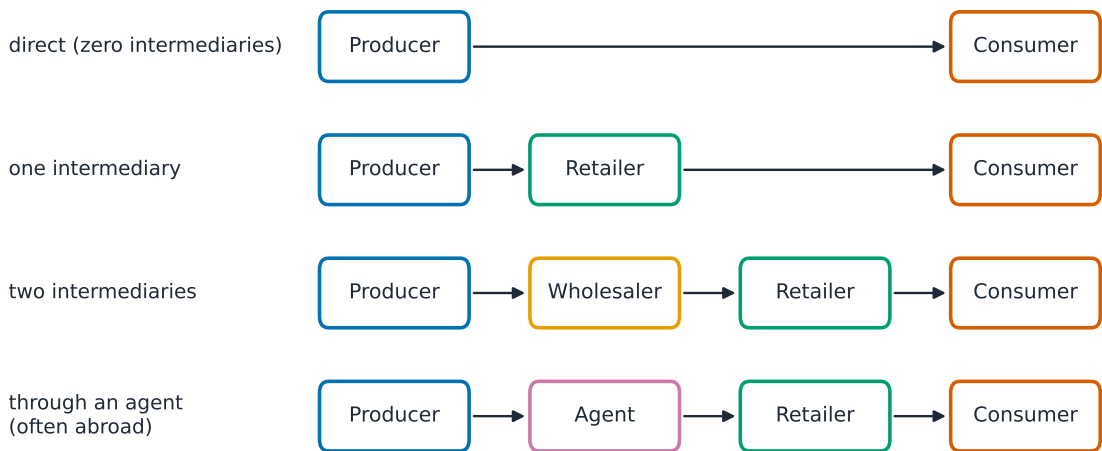
## ■ Promotion

- **Above-the-line promotion** uses paid mass media: television, newspapers, cinema, billboards and online adverts. It reaches many people, but it is costly and hard to target.
- **Below-the-line promotion** is targeted and often cheaper: sales promotions (discounts, free gifts), sponsorship, direct marketing, personal selling and public relations (PR).
- **Social media marketing** uses platforms such as WeChat, Douyin and Instagram. It is cheap and two-way, and messages can go viral, but bad comments spread just as fast.
- **Guerrilla marketing** uses surprising, low-cost stunts in public places to get attention.

The **promotional mix** is the combination a business chooses.

## ■ Place

**Place** is how the product reaches the customer. A **distribution channel** is the path from producer to consumer.



*Each intermediary adds reach but takes a share of the price*

Each **intermediary** (wholesaler, retailer or agent) adds reach and convenience, but takes part of the profit and reduces the producer's control. Selling online (**e-commerce**) lets even small firms sell directly to customers far away.

#### ■ People, processes and physical evidence

- **People** : the staff who deal with customers. In a service, the mechanic who explains a fault clearly is part of the product.
- **Processes** : how the service is delivered: online booking, waiting times, how complaints are handled.
- **Physical evidence** : what customers can see: a clean workshop, uniforms, a clear invoice, online reviews.

## International marketing (HL)

Firms market abroad to find new customers when the home market is **saturated** (full), to spread risk across countries, to gain economies of scale, and to extend a product's life cycle.

Entry methods, from lowest risk and control to highest:

| Entry method                        |     | How it works                                      | Risk and control                                |
|-------------------------------------|-----|---------------------------------------------------|-------------------------------------------------|
| exporting                           |     | sell goods made at home to foreign buyers         | lowest risk, least control                      |
| licensing<br>franchising            | and | a foreign firm uses the brand or patent for a fee | low cost; less control over quality             |
| joint venture                       |     | share a new business with a local partner         | shared risk, local knowledge; possible conflict |
| direct investment<br>or acquisition |     | build or buy a business abroad                    | full control; highest cost and risk             |

A key choice is whether to **standardise** the marketing mix (the same product and message everywhere, which saves money) or to **adapt** it to local tastes, laws, language and culture. Many firms "think global, act local": KFC in China serves rice dishes, soy milk and youtiao for breakfast, while keeping its global brand. Firms must also manage exchange-rate changes, different laws, and cultural differences that can make an advert offensive in another country.

## Checklist

- Marketing; market against product orientation; marketing in social enterprises; market share  $2,000 \div 8,000 = 25\%$  and why share can fall as sales rise; market leadership (4.1).
- The marketing plan; segmentation by demographics, geography and psychographics; targeting niche and mass markets; positioning, position maps and the USP; the Ansoff matrix (4.2).
- HL sales forecasting: three-part moving averages (6.0, 5.9, ...), seasonal variation as actual minus trend (+0.3 in Y2 Q2), cyclical and random variation, and the limits of forecasts (4.3).
- Primary and secondary research; qualitative and quantitative data; random, stratified, quota, convenience and snowball sampling; sampling error and ethics (4.4).
- The seven Ps: the product life cycle and extension strategies; the BCG matrix with stars, cash cows, question marks and dogs; branding; the nine pricing methods; above- and below-the-line, social media and guerrilla promotion; distribution channels and intermediaries; people, processes and physical evidence (4.5).
- HL international marketing: reasons; exporting, licensing and franchising, joint ventures and direct investment; standardise against adapt (4.6).