

4.1 Introduction to marketing

Importance of market share and market leadership

In October 2021, Facebook announced that it had changed its company name to Meta. It also announced that it would accelerate its investment spending on products and services related to the metaverse. The metaverse is a computer-generated virtual environment in which people interact with the environment and each other. The following video shows the announcement of the change from Facebook to Meta.

Everything Facebook revealed about the Metaverse in 11 mi...



Video 1. Announcing the change of name from Facebook to Meta and explaining what the metaverse will be like.

Meta sees an enormous business opportunity in this technological change and Meta is in a strong position to enter new markets in the metaverse. Meta has earned enormous profits from its previous market leadership in social media markets. These profits can be used to fund investments that could establish it as market leader early on in the metaverse.

While this may be good news for Meta, there are concerns that Meta is using its dominance in one market to extend its influence in new markets (<https://www.vox.com/recode/22776461/facebook-meta-metaverse-monopoly>). This may not give other, perhaps more innovative, businesses a chance to be successful. In addition, there are concerns about the way Meta has used its market power in the past, particularly in relation to user privacy. So while a high market share in a growing market is good for some businesses, there may be threats for the economy, society and the environment when a business dominates a market.

Market leadership

The market leader is the product or brand with the highest market share. There are several of advantages of being the market leader for a business. However, when one company dominates a market, there can be disadvantages for other stakeholders.

Advantages of market leadership for a business

Accessing distribution channels (Subtopic 4.5 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-39004))

Businesses that produce goods will need to sell them to customers. Businesses do this through distribution channels. They often rely on other businesses, called retailers, to sell their products to customers. Retailers will stock the brands that their customers demand. Smaller retailers may only stock the leading brand of each product line. This can create a positive feedback loop where high market share leads to wide distribution and strong sales. This can help a company maintain or increase its market share.



Figure 1. Retailers are more likely to stock the products of market leaders.

Credit: kali9, Getty Images

Brand recognition ([Section 4.5.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/product-branding-packaging-id-39006\)\)](https://app.kognity.com/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/product-branding-packaging-id-39006)

People are more likely to recognise the brand and products of the market leader. Consumers are more likely to buy a product that they recognise, increasing the revenues of the market leader. Some businesses and their brands are so successful that people use the name of the company or brand to refer to an entire product category (see **Table 1**).

Table 1. Famous brand names that are used to refer to a product category.

Brand name	Product category
Jet ski	Personal watercraft
Scotch Tape	Sticky tape
Popsicle	Frozen ice cream (ice lollies) on a stick
Rollerblade	In-line skates

Brand name	Product category
Velcro	Hook and loop fabric fasteners
Band-Aid	Adhesive bandages (plasters)



Figure 2. Some brands, such as Popsicle, are so successful that people use their brand name to refer to an entire product category.

Credit: Blanche Costela, Getty Images

Economies of scale (Section 1.5.2 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/internal-and-ext-economies-id-36534))

Economies of scale are the cost savings that come from selling a large number of products. It is likely that the market leader will have lower unit costs than its competitors.

There are many reasons for this. A large business in the market will be able to buy large quantities of supplies at lower costs. This is called bulk buying. In addition, the cost of large pieces of capital equipment and large advertising costs will now be averaged over larger volumes of output, reducing unit costs.

As a result, businesses can afford to lower their prices for customers. Customers then may buy more of the product, which can further increase market share in a positive feedback loop. Alternatively, the business can keep prices the same and earn larger profits.

Price leadership (Section 4.5.3 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/pricing-methods-id-39007))

There are some situations where a business has a large amount of control over the price of its product. Market leaders often have this power. The price that the market leaders set will seem like the 'right' price for the product category. This can be a problem for competitors, if the perceived 'right' price does not work for their business model. It will often be the case that competitor businesses have to react to what the market leader does. They must first try to understand the leader's strategy before they can make their own decisions. For the leader, this is an important advantage.

Activity

Learner profile: Inquirers

Approaches to learning: Thinking skills (transfer)

In the UK, it is traditional for families that celebrate Christmas to end their meal with a Christmas pudding. Every year, consumers spend over 40 million GBP on this dessert. One company, Matthew Walker, dominates this market. The company produces over 26 million puddings a year, which gives it a massive 95% market share. As a result, the company enjoys large economies of scale and wide distribution channels.



Figure 3. The UK market for Christmas pudding is dominated by Matthew Walker.

Credit: Andrew Dernie, Getty Images

Consider the following questions and discuss them with a partner.

1. What sources of economies of scale will Matthew Walker likely have as the market leader? You may want to look at [Section 1.5.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/internal-and-ext-economies-id-36534\)](https://study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/internal-and-ext-economies-id-36534) to remind yourself of all the sources of economies of scale.
2. How might Matthew Walker benefit from being market leader in the UK?
3. This article from [The Irish Times](https://www.irishtimes.com/business/agribusiness-and-food/valeo-foods-to-pay-75m-for-uk-s-biggest-christmas-pudding-maker-1.4046835#:~:text=Derbyshire-based%20Matthew%20Walker%20dominates,of%20about%20%E2%82%AC40) (<https://www.irishtimes.com/business/agribusiness-and-food/valeo-foods-to-pay-75m-for-uk-s-biggest-christmas-pudding-maker-1.4046835#:~:text=Derbyshire-based%20Matthew%20Walker%20dominates,of%20about%20%E2%82%AC40>) describes the acquisition of Matthew Walter by Valeo Foods in 2019. Do you think that being market leader will make companies more or less likely to be targets of acquisitions and takeovers? Why?

Advantages and disadvantages of strong market leadership for customers

It is important to look at the issue of market leadership from other perspectives. While market leadership brings significant advantages for a business, it is a mixed picture for customers, society and the natural environment. In fact, some of the advantages

highlighted for the business are actually disadvantages for customers.

The advantages and disadvantages for customers of a business being a market leader are outlined in **Table 2**.

Table 2. Summary of the main advantages and disadvantages for customers of a business being a market leader.

Issue	Advantage for customers	Disadvantage for customers
Networks	The business may create network effects, where the product becomes more valuable the more people use it (for example, social media networks).	Larger businesses may continue to dominate and abuse their power in networks (for example, social media and privacy, technology companies extending their dominance into other markets).
Price	The business may reach economies of scale with low costs of production. The business may be able to lower prices for customers.	<p>Even if a large, dominant business achieves economies of scale, there is no guarantee it will lower prices for consumers. The business may simply take higher profits.</p> <p>A dominant company in an industry will also have pricing power. It may be able to raise prices for consumers due to low competition.</p>

Issue	Advantage for customers	Disadvantage for customers
Innovation	The business may achieve high sales and profits, which allow for investment in product research and development.	If the business dominates the market, it may have little competition. It may not have the incentive to innovate.

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy)

Look at the graph about the change in market share for mobile operating systems worldwide (<https://dazeinfo.com/2019/08/23/mobile-os-market-share-worldwide-by-month-graphfarm/>), 2009–2021. Then answer the following questions:

- How did market leadership in the mobile operating systems market change from January 2009 to April 2021? When you describe these changes, be sure to use figures from the online graph to support your ideas. You could consider:
 - changes in the number of operating systems competing in the market over time
 - changes in the market share of operating systems in the market over time
- Consider the information about the advantages for a business of being market leader described earlier in this section. How have positive feedback loops played a role in the Android and iOS operating systems becoming dominant in the market over time?
- What might be the advantages and disadvantages for consumers of the market leadership of the Android operating system? (Note: The question is not asking about the advantages and disadvantages of the two operating systems, but instead is focused on market leadership.)

Disadvantages of market leadership for the business, the economy, society and the environment

There can be a number of disadvantages of market leadership for the business itself. Businesses that are market leaders at one point in time may not stay market leaders. Large dominant businesses may lack the incentive that newer businesses have to

innovate. Their high profits may also attract new competitors who are able to innovate more quickly. And they may get too large, and experience diseconomies of scale that raise costs of production and lower profits, so a market leader can experience disadvantages itself from its dominance of a market. This has been the case in the market for mobile communication devices.

The video below explains that the company Blackberry had a much larger market share in mobile communication devices before 2012. Blackberry's market share declined as new competitors such as Samsung and Apple entered the market.

The Rise And Fall Of BlackBerry | Rise And Fall



Video 2. The story of Blackberry.

There are also a number of disadvantages of market leadership for the economy, society and the environment. The advantages of market leadership can create positive feedback loops, strengthening the market leader over time and reducing competition. Access to distribution channels, brand recognition, economies of scale and price leadership are all advantages for the market leader that can lead to increased revenues and profits. These profits can be used to further strengthen the business through new innovation. However, the profits can also be used in ways that harm the economy, society and the environment. Examples of these might be:

- lobbying political leaders to create favourable legislation for the business and weaken the environment, labour and antitrust laws,

which are created to limit the power of dominant businesses

- lobbying political leaders to gain support for mergers and acquisitions that lessen competition in the market
- resisting trade unions and efforts of less powerful workers to negotiate fair wages and conditions
- finding tax loopholes to avoid paying a fair level of tax, which is needed to fund essential services and infrastructure

So while market leadership is generally beneficial for the business, there are significant economic, social and environmental threats associated with large dominant companies.

Concept

Ethics, sustainability, creativity and change

Market leadership highlights issues connected with all four of the key concepts:

- **Ethics and sustainability:** Market leaders must ensure that they are not abusing their power to the disadvantage of other stakeholders in the economy, society and environment.
- **Creativity and change:** Market leaders must continue to be creative in meeting human needs and solving problems if they want to remain the leader. Market leaders must also be flexible to respond to change in the external environment, or they may find that new competitors take their market share.

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy); Thinking skills (transfer)

The global meat industry is dominated by a few very large multinational companies. While the large scale of these businesses has reduced the price of meat for consumers worldwide, there are a number of economic, social and environmental problems associated with their market leadership.

Read the following report produced by the Heinrich Böll Foundation: [Companies: dominating the market from farm to display case](https://eu.boell.org/en/2021/09/07/companies-dominating-market-farm-display-case) (<https://eu.boell.org/en/2021/09/07/companies-dominating-market-farm-display-case>). Then consider the following:

- What advantages of market leadership are there for the major multinational meat producers?
- What economic, social and environmental threats are described in the report, due to the market growth of the meat industry and the market share of the major meat producers? You may be able to make connections to the Doughnut Economics Model (**Figure 4**) or the sustainable development goals (SDGs) (<https://sdgs.un.org/goals>) as you consider the impacts of the market growth and market leadership in this industry.

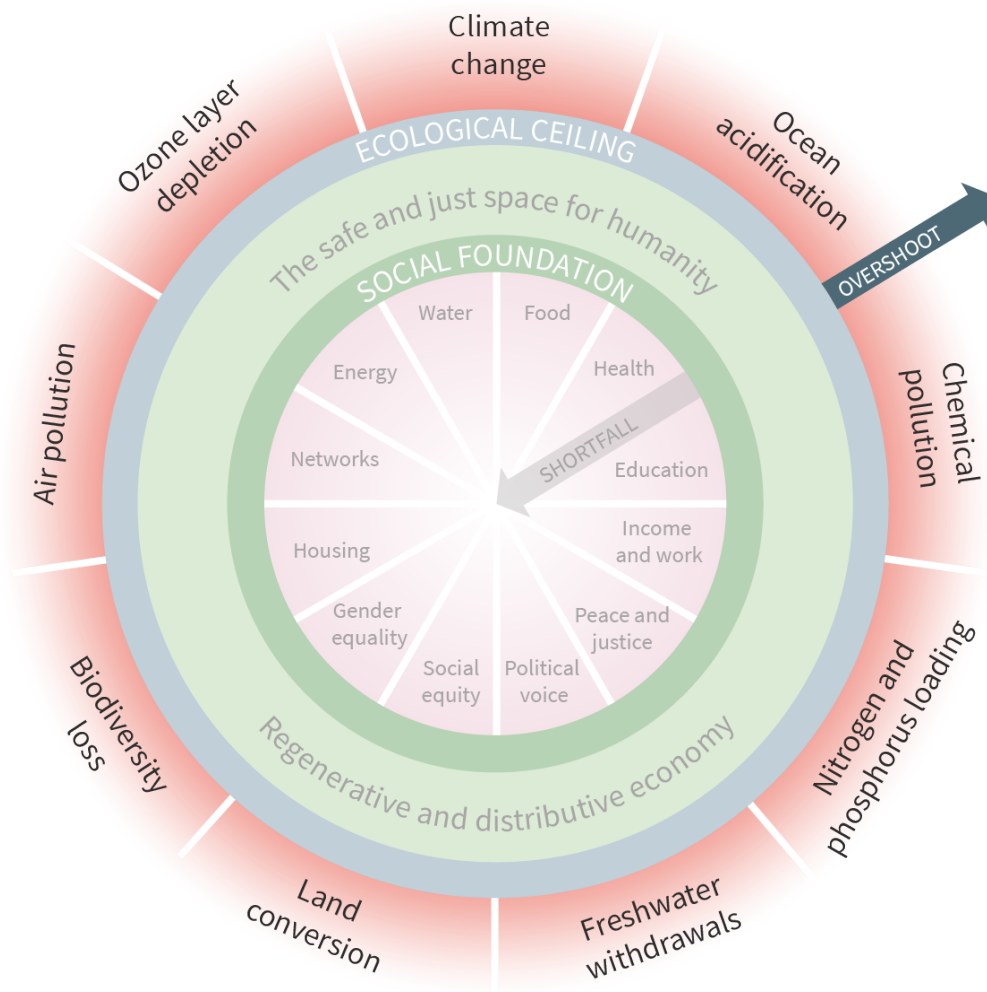


Figure 4. The Doughnut Economics Model – the planetary boundaries are on the outer ring. (Click to enlarge image.)

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