

4.1 Introduction to marketing

Market share and market growth

This section explores the meaning of market share and market growth and explains how the two are calculated. Most for-profit commercial enterprises and some for-profit social enterprises aim to operate in growing markets. They also want to increase their market share to increase profits and/or positive social and environmental impact.

Electric vehicle (EV) manufacturer Tesla has experienced explosive growth in the car market in recent years. **Figure 1** shows the growth of the company's vehicle deliveries over time. In the first quarter of 2016, Tesla produced approximately 76 000 cars. By the fourth quarter of 2021, Tesla produced 936 000 cars.

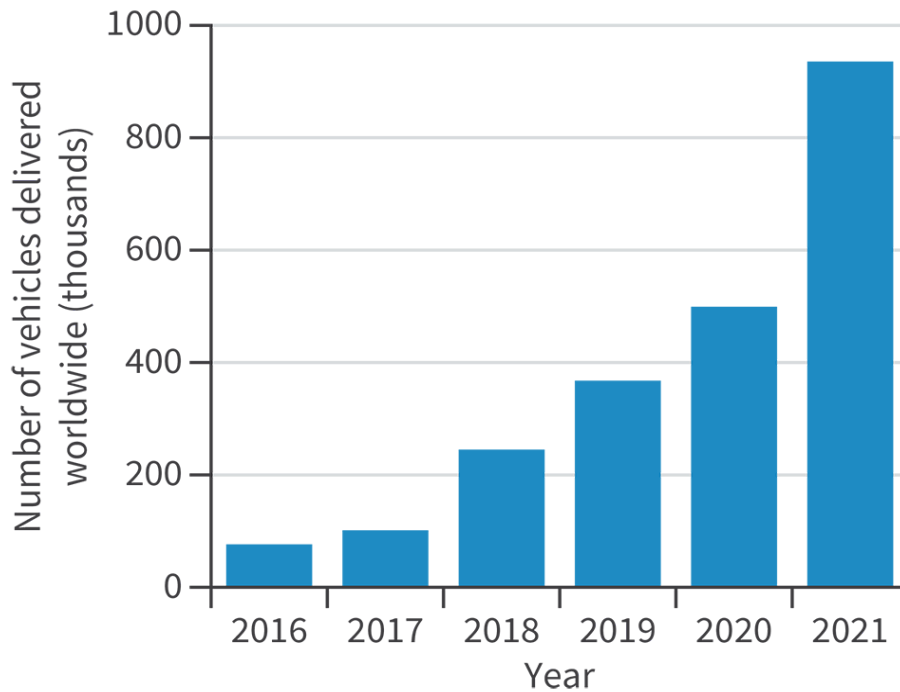


Figure 1. Number of Tesla vehicles delivered worldwide 2016–2021.

Source: Tesla press releases, Q4 2016–2021

However although the company is producing more cars, Tesla's market share of electric vehicles declined in 2021. Other companies are increasing their production of EVs, so Tesla is taking a smaller overall share of the market. What does this mean for Tesla? To what extent should the company be concerned?

Market share

Market share measures the value of a single company's sales or revenues compared with the sales of all businesses in a market. This is measured in the percentage of a whole market. For example, Tesla's global market share of plug-in electric cars in the first half of 2021 was 14.55% (<https://www.canalys.com/newsroom/global-electric-vehicle-market-2021>). Volkswagen Group had the second largest market share with 12%. SAIC, which includes General Motors and multiple other companies, had the third largest market share of 11%.

When you calculate market share, you must specify the market to which you are referring. For example, are you referring to a broad market such as 'all restaurants' or a narrower market such as 'fast-food restaurants'? The data for market share of electric vehicles is defined as the 'global plug-in electric vehicle market'.

In addition, you need to identify a specific time period. In the electric vehicle market share data presented earlier, for example, the time period is for the whole of 2021. Including a time period allows a business to compare its performance with that of its rivals more precisely.

The formula for calculating market share:

$$\text{Market share} = \frac{\text{product sales}}{\text{total market sales}} \times 100 = \underline{\hspace{2cm}} \%$$

For example, imagine that a restaurant in a small town has nightly sales of \$200. If the total nightly restaurant sales in the town are \$1000, you can calculate the market share for that restaurant as follows:

$$\text{Market share} = \frac{\$200}{\$1000} \times 100 = \underline{\hspace{2cm}} \%$$

$$\text{Market share} = 0.2 \times 100 = \underline{\hspace{2cm}} \%$$

$$\text{Market share} = 20\%$$

As well as calculating market share by revenue, you can calculate market share by looking at the volume (number of products) sold. It would be interesting to use both methods, for example, when analysing the mobile phone industry. This is because it would show what proportion of mobile phone users own different brands of phone, and also the share of revenue that each company has. In this case, calculating the market share by revenue is important. This is because phones are sold at different prices, so a company might sell fewer phones but earn more revenue compared to competitors because it sells more expensive phones.

In this case, the formula is similar but is based on the number of products sold:

$$\text{Market share} = \frac{\text{number of units sold by the company}}{\text{total number of units sold in market}} \times 100 = \underline{\hspace{2cm}} \%$$

If the town mentioned above has a total of 52 restaurant guests on average in one evening, and one restaurant hosts 14 guests on average per evening, then market share could be calculated as:

$$\text{Market share} = \frac{14}{52} \times 100 = \underline{\hspace{2cm}} \%$$

$$\text{Market share} = 0.27 \times 100 = \underline{\hspace{2cm}} \%$$

$$\text{Market share} = 27\%$$

Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (transfer)

Use the information below to calculate the market share for Business X.

In a local market, there are three businesses selling fruit and vegetables. One day, they sell \$3000 of food between them. Business X has sales of \$2000. What is the market share for Business X?

Market growth

Concept

Sustainability

It is important to keep in mind that market growth is a problem for Earth's planetary boundaries. You learned about some of the downsides of growth in [Subtopic 1.5 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-36532\)](#). Endless growth is not sustainable, either economically for individual businesses or environmentally.

Market growth refers to the increase in sales revenues or sales volume in an individual market over time. As with market share, it is important to specify the market that is being examined. This could be a broad or narrow market. A time period also needs to be

identified.

Market growth is represented in percentage change compared to a previous time period (T). The formula is:

$$\text{Market growth} = \frac{(\text{total market sales T2} - \text{total market sales T1})}{\text{total previous market sales T1}} \times 100 = \underline{\hspace{2cm}} \%$$

Markets can grow or decline in size. Generally, businesses will want to sell products in markets that are growing. Market growth is an external opportunity (STEEPLE analysis, [Section 1.1.6 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-business-plan-id-36505\)\)](#). It may be easier for the business to sell many products in a growing market and earn revenue to sustain its business.

For example, the market for plug-in electric vehicles has been growing strongly. Tesla's early entry into this growing market means that the company has an opportunity to sell many cars, earning large revenues. The company has been expanding production globally to meet the growing demand for its cars.

However, growing markets tend to attract more competitors. The strong demand means that other car manufacturers see an opportunity to offer similar products to a growing number of customers. So, while a growing market is an opportunity for businesses, the increased competition that comes with market growth can be an external threat. This is the situation that Tesla is facing in the electric vehicle market as new car manufacturers enter the market with their products.

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy)

Skim the following article from the World Economic Forum. It discusses the future of the electric car market: [China is leading a surge in electric vehicle sales \(https://www.weforum.org/agenda/2018/05/china-surge-electric-vehicle-sales/\)](https://www.weforum.org/agenda/2018/05/china-surge-electric-vehicle-sales/).

The data presented in the article predicts that 60 million electric vehicles will be sold in the year 2040. Assuming that electric vehicle sales were approximately 3 million in the year 2020:

1. Calculate the market growth for electric vehicles in the next 20 years.
2. What human need(s) are electric car manufacturers meeting with their products? You may want to consider the inner ring of the Doughnut Economics Model (shown below and covered in [Section 1.1.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-doughnut-economics-model-id-36500\)\)](#), or the social

sustainable development goals (SDGs (<https://sdgs.un.org/goals>)).

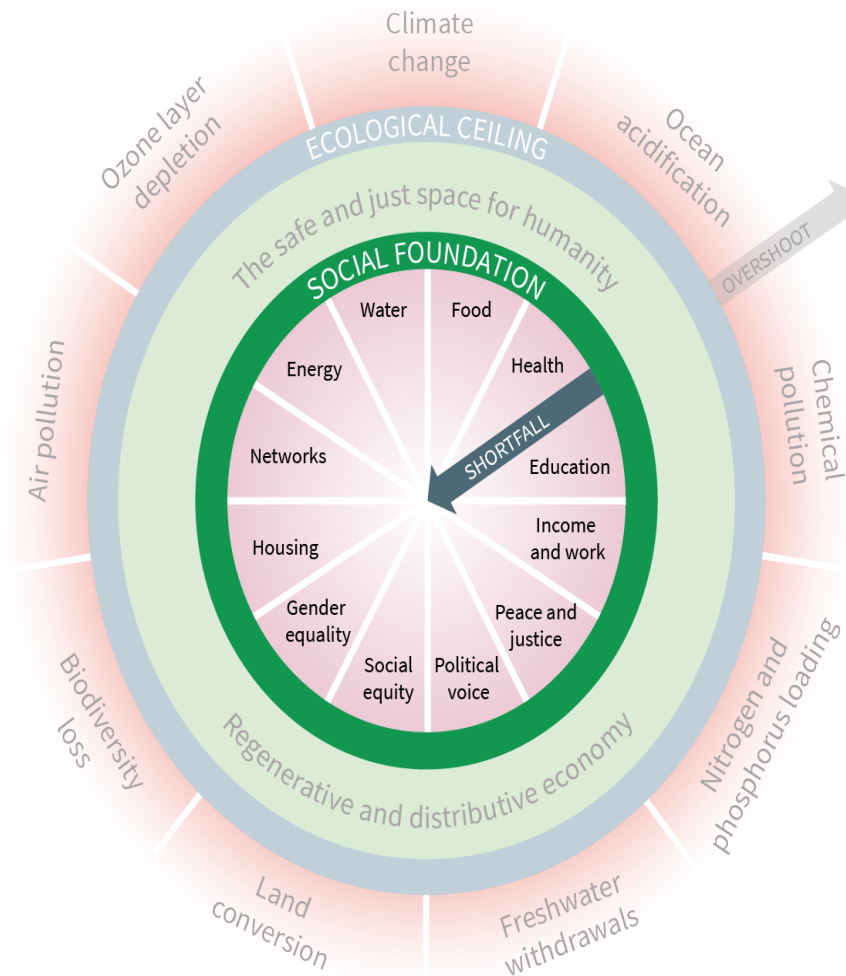


Figure 2. The Doughnut Economics Model. (Click to enlarge image.)

Credit: Kate Raworth and Christian Guthier. [CC-BY-SA 4.0](https://creativecommons.org/licenses/by-sa/4.0/)
(<https://creativecommons.org/licenses/by-sa/4.0/>)

3. How do you think the market growth of electric vehicles will impact environmental sustainability? You may want to consider the planetary boundaries from the outer ring of the Doughnut Economics Model (shown above and covered in [Section 1.1.2 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-doughnut-economics-model-id-36500\)](#))).
4. The article points out that China is seeing a large increase in sales of electric vehicles, and it also explains why this is happening. Which STEEPLE factor ([Section 1.1.6 \(/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/tool-business-plan-id-36505\)](#)) is involved in this situation?