

Overview
(/study/ap...)
hl/sid-
351-
cid-
762729/c

Teacher view

Table of
contents

Notebook

4. Marketing / 4.1 Introduction to marketing



Glossary

Reading
assistance**Index**

- The big picture
- The market and marketing
- Market orientation and product orientation
- Market share and market growth
- Importance of market share and market leadership (HL)
- Terminology exercise
- Tool: BCG matrix
- Checklist
- Reflection

The big picture

In 2013, Google released a new product called ‘Glass’ – a hands-free, voice-controlled computer device designed to be worn as a pair of glasses. The technology was welcomed by some – including some medical professionals – and many companies and developers built applications for Glass. Glass also used several of Google’s own applications.



1. Google executive Amanda Rosenberg wearing Google glasses. Glass was not a successful product, in part due to the ethical concerns raised about it.

Source: [Max Braun from San Francisco](#)

commons.wikimedia.org/wiki/File:Google_executive_Amanda_Rosenberg_modeling_the_Google_Glass_face_mounted_wearable_technology_at_San_Francisco_2013.jpg

USA, CC BY-SA 2.0 (<https://creativecommons.org/licenses/by/2.0/>). via Wikimedia Commons

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However, many people have raised significant [ethical concerns about Glass](#) (<https://www.wired.com/story/google-glass-reasonable-expectation-of-privacy/>). Some of these concerns relate to the ethics of using a device that can record people without their knowledge and permission. Other concerns relate to the use of facial recognition software for Glass. Some organisations even banned the use of Glass before the product was released to the general public.

Overview
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cid-
762729/c

Although it still exists, Glass is now much less prominent than it was initially. Google is reportedly continuing to work on augmented reality headsets; its ongoing research should support its product development for the metaverse, a virtual-reality space in which people can interact with computer-generated environments and other people.

Google's efforts to develop new hardware to meet the new needs and wants of consumers in augmented and virtual reality highlight the ethical challenges of marketing in times of rapid change.

❖ Theory of Knowledge

The development of the metaverse provides businesses with an interesting opportunity to find new markets and develop new products. Many technological leaders such as Google, Apple and Facebook/Meta, as well as many smaller companies, are racing to develop hardware and software for the new metaverse markets.

However, the growth of the metaverse raises significant ethical concerns around privacy, human rights, equity and social networks. Many businesses are effectively needing to deal with emerging ethical questions before developing products for the metaverse.

- How can businesses manage the tensions between their desire to earn large profits while also supporting human wellbeing in the metaverse markets?

Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Distinguish** between market orientation and product orientation (AO2)
- **Distinguish** between market share and market growth (AO2)
- **Calculate** market share and market growth for given data (AO4)
- **Discuss** the importance of market share and market leadership (HL only) (AO3)
- **Apply** the Boston Consulting Group matrix in a given context (AO2)

4. Marketing / 4.1 Introduction to marketing

The market and marketing

Market orientation versus product orientation Market orientation versus product orientation

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Overview
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What is a market?

When you think of a market, the first image that might come into your head is that of an open area where various sellers are offering their goods. Maybe you go to markets like these regularly in your town or city, or perhaps you have been to one while travelling.



Figure 1. Markets like this one are common around the world, but in business the word ‘market’ has different meanings.

Credit: Rich Legg, Getty Images

In reality, each time you enter a shop you are in a market. But in business management the term ‘market’ has three different meanings:

- a place where buyers and sellers come together or interact
- a location
- a type of product

These three meanings are explained further below.

A market as a place where buyers and sellers come together

This is the simplest use of the term ‘market’. A market is any place, physical or virtual, where buyers and sellers come together to exchange goods. In addition to open air markets and physical shops, virtual marketplaces such as eBay, stock markets, cryptocurrency markets and carbon markets are all examples.

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Credit: Tassii,

Getty Images



Credit: Oscar Wong,

Getty Images



Credit: Witthaya Prasongsin,

Getty Images

More information

The image shows a close-up of a person's hand interacting with a digital graph displayed on a tablet screen. The graph contains multiple colored lines, likely representing different data sets, overlapping with each other. The X-axis of the graph appears to represent time intervals, while the Y-axis shows numerical values, possibly indicating financial or stock market data. The trends depict fluctuating values, with visible peaks and troughs. There is additional text and numbers on the screen suggesting the presence of more detailed information alongside the graph.

[Generated by AI]

Figure 2. Markets can be physical places, or they can exist virtually.

A market as a location

When a business talks about its market, it might be referring to a particular geographic location. A multinational company such as McDonald's, for example, reports its sales by continent. However sales figures can be broken down into much smaller areas. For example, there are several McDonald's restaurants in Jakarta, Indonesia. To which geographic market do these restaurants belong? Asia? Indonesia? Jakarta? All of these are correct; it just depends on the geographic scale of your definition.

Certain products will be sold only to certain markets, and location is important for the marketing of the product. Sometimes, in order to satisfy local customers, products are changed according to location or to the culture of a region. For example, McDonald's changes the menu it offers in different countries to accommodate local tastes.



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② Making connections

You will learn more about how businesses adapt their products for different geographic markets in [Subtopic 4.6 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39021/\)](#) on International Marketing.



Figure 3. A market can refer to a specific geographic location.

Credit: Richard Drury, Getty Images

A market as a type of product

Businesses might also refer to a market as a particular type of product, for example the market for recycled paper or the market for mobile phones.

When referring to these markets, a business is looking at the size and strength of consumer demand for the products and the number and strength of competitors. Thinking about a market in this way can help a business evaluate whether it makes sense to enter the market. In [Section 4.1.4 \(/study/app/business-hl/sid-351-cid-762729/book/market-share-and-leadership-id-37439/\)](#) you will be looking at the market for electric vehicles. This market is growing rapidly, and consumer demand is strong. This makes the electric vehicle market attractive for businesses.

Marketing

You can think of marketing as all the processes involved in identifying and satisfying customer needs. In business-to-consumer (B2C) marketing, the customer needs to be convinced to make a purchase in the short space of time between entering the physical or online store and leaving again. Businesses need to plan all aspects of the marketing mix to ensure a successful marketing strategy. You will learn in detail about each element of the marketing mix (the seven Ps) in [Subtopic 4.5 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39004/\)](#).

Overview
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351-
cid-
762729/c

In Subtopic 1.3 (</study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36515/>) and Subtopic 1.5 (</study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36532/>), you learned about various broad business objectives including growth, profit, ethics and sustainability objectives. Marketing strategies will help a business meet its overall business objectives. These marketing strategies may be different for for-profit commercial enterprises, for-profit social enterprises, and non-profit enterprises. These types of businesses will prioritise profits and social or environmental impact differently and will need appropriate marketing strategies to meet their objectives.

① Exam tip

Make sure that you consider the type of organisation carefully before making marketing recommendations in the exam or internal assessment (IA). For-profit commercial businesses will have different marketing objectives from for-profit social enterprises, or non-profit organisations.



Figure 4. Non-profit social enterprises may need to set marketing objectives related to fundraising.

Credit: Krisana Antharith / EyeEm, Getty Images

Table 1 outlines the elements of the marketing mix, where the first four elements refer to the marketing of goods, and all seven elements refer to service markets. Because most products involve both goods and services, many businesses use all seven elements of the marketing mix (the seven Ps) to plan their marketing strategy.

Table 1. The elements of the marketing mix, with the first four elements referring to goods and all seven elements referring to services.

Element of the marketing mix		Description
Product		The good or service that the business is offering the customer. Businesses must ensure that products match customer needs and expectations. This is known as the <u>product—market fit</u> .
Price		The amount of money that a business charges for its product. Businesses must choose the right price for their products based on the business objectives, costs of production, consumer expectations and level of competition.
Promotion		The publicising of a product, an organisation or an activity in order to increase sales or public awareness. Promotion takes many forms and businesses must ensure they send the right message and that the message reaches the target market.
Place		How products travel from producers to consumers. Some producers may sell directly to consumers; other producers may have intermediaries. All businesses must consider how their products are distributed because this is a critical part of meeting consumer needs and expectations.
People		Everyone who works in the service business and has contact with customers. The friendliness, helpfulness and problem-solving abilities of employees are critically important for a business to satisfy its customers.

Element of the marketing mix		Description
Processes		<p>How a service is delivered to customers including how a customer places and pays for an order, the delivery systems and customer feedback. When these processes work smoothly, customers hardly notice them.</p> <p>When processes go badly, customers may leave dissatisfied, even if other elements of the marketing mix are excellent.</p>
Physical evidence		<p>Every tangible aspect of the service, that is, all the physical things a customer sees and experiences. The visual, spatial, auditory and olfactory elements can have an enormous impact on how a customer perceives an experience — affecting satisfaction levels.</p>

① Exam tip

Often in the media and elsewhere you will hear people use the term ‘marketing’ when they actually mean ‘promotion’. Do not confuse the two. Marketing refers to the entire range of areas in which a business can adapt strategy to meet the needs and expectations of consumers and sell their products; the entire range of the seven Ps. Promotion is just one area of marketing.

⚙️ Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (transfer)

In [Section 1.1.1 \(/study/app/business-hl/sid-351-cid-762729/book/the-nature-and-role-of-business-id-36498/\)](#), you were introduced to the main business functions: human resources management, finance and accounts, marketing and operations. The marketing function is deeply connected to the other three business functions.

A great deal of planning will take place before production, in order to determine the needs and wants of the customer. All of this is the role of the marketing department, which must also work alongside other departments to make the product a success.

- Can you identify a connection between marketing and each of the other three business functions? Discuss with a partner or in your class.



Overview
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hl/sid-
351-
cid-
762729/c

Question 1

2 section questions ^

Which of the following is **not** one of the seven Ps of the marketing mix?

- 1 Portfolio
- 2 Price
- 3 Product
- 4 Promotion

**Explanation**

The seven Ps of the marketing mix include product, price, place, promotion and (for services) people, processes and physical evidence. Portfolio is **not** part of the marketing mix.

Question 2

- 1 Promotion ✓ refers to the publicising of a product, an organisation or an activity in order to increase sales or public awareness.

Accepted answers and explanation

- #1 Promotion
 - promotion

General explanation

Promotion is the term used for all the activities related to making the public more aware of a product or influencing them to buy the product.

4. Marketing / 4.1 Introduction to marketing

Market orientation and product orientation

Market orientation versus product orientation Market orientation versus product orientation

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The metaverse is a growing market for many businesses. The metaverse is a virtual reality (VR) environment that users experience through virtual reality headsets. With computer technology, users can develop their own environments, creating physical spaces and communities with others.

Overview
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762729/c



Figure 1. The development of the metaverse raises interesting business and ethics questions related to product orientation and market orientation.

Credit: Kilito Chan, Getty Images

There is much debate about the uses and potential harm resulting from the development of the metaverse and the products that businesses might create for it. These questions are related to whether businesses are more focused on creating products, or more focused on meeting market needs.

🔗 Concept

Ethics

VR technology has made enormous advances in the past decade and is now used in many fields from gaming and other leisure activities to health care. However there are some concerns that, when people use VR technology, they may lose their ability to interact with the real world. And as a result, they may become more isolated from other people. Also, as people interact more in the digital world, there are growing ethical concerns about the impact of VR on privacy and data protection.

When businesses create new technologies, they need to consider the possible negative consequences of their products. Businesses must ensure that the benefits to people are maximised and that the harm is minimised.

Product orientation

Companies are considered to show product orientation if they prioritise the research and development of high quality, specialised products rather than prioritising market research. Product-oriented companies are inward facing. They have faith in their designers and engineers to come up with new and innovative ideas that can be passed on to the marketing department to sell.



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Overview
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It is possible to get a patent for innovative products and designs. A patent is the legal right to be the only producer and seller of a good for a period of time. This means that a business that has a patent can earn large revenues as the only seller. It also means that the business's competitors cannot easily copy its ideas. This leads to companies gaining a unique selling point (USP).

Toyota, for example, invested millions when researching its efficient hybrid car engines. As a result, its cars offer customers high fuel efficiency and low running costs. Despite the relatively high prices for the cars, the USP has allowed Toyota to become the market leader – the company with the highest market share – in the hybrid car market.

The key disadvantage to product orientation is that there is no guarantee customers will want to buy the final product. If this is the case, then large amounts of money invested in the product could be lost.

An example of this was when the British and French governments funded the development of Concorde, a supersonic passenger airliner. The plane was incredibly fast. A flight between Paris and New York took just three and a half hours, compared with the regular time of around eight hours. However, the plane could only hold between 92 and 128 passengers, which made it very expensive to run. As a result, only 14 planes were ever sold – seven each to British Airways and Air France – the cost of which was subsidised by the British and French governments respectively.



Figure 2. Concorde — a supersonic airliner.

Source: Eduard Marmet [↗](https://commons.wikimedia.org/wiki/File:British_Airways_Concorde_G-BOAC_03.jpg) (https://commons.wikimedia.org/wiki/File:British_Airways_Concorde_G-BOAC_03.jpg), CC BY-SA 3.0 GFDL 1.2 [↗](https://creativecommons.org/licenses/by-sa/3.0/deed.en) (<https://creativecommons.org/licenses/by-sa/3.0/deed.en>), via Wikimedia Commons

Table 1 outlines some additional advantages and disadvantages of product orientation.

Table 1. Advantages and disadvantages of product orientation.

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view

Advantages	Disadvantages
USP and quality. Product orientation can distinguish a business from its competitors by providing high quality and a unique selling point (USP).	High risk. There may be no customer interest in the product because it was not targeted at an identified need.
Monopoly power. New products may receive a patent. This would enable the business to be the sole producer for a period of time, resulting in large revenues and profits.	High costs. Product orientation requires large sums for investment — money that could be used elsewhere in the business on less risky activities.
Lack of competition. Developing totally new products may mean there is little or no competition in the market, enabling large revenues and profits.	

Theory of Knowledge

You may be familiar with facial recognition technology, which is now used in many new mobile and other devices. The purpose of this is to make the device more secure, in order to protect privacy. However, this technology can also be used for other purposes that violate privacy. For example, it can be deployed to track people in public spaces, recording their locations without them knowing. The use of this data can potentially violate human rights.

- What are the ethical implications of developing new products, when it is not understood how they will be used in the future?

Concept

Creativity, sustainability and ethics

Product orientation is often about imagining things that people do not yet know they need. This requires enormous creativity from businesses, who do not necessarily have the feedback from customers to guide their direction.

But there might be negative consequences for sustainability from product orientation. If businesses use resources to develop products that people do not need or want, this could result in waste.

Even worse are the ethical issues that emerge when businesses develop products that people do not really need or want, but use sophisticated marketing strategies to convince them that they do.

Market orientation

When companies are market oriented, the needs and wants of the customer are put above everything else. Extensive and ongoing market research will be at the centre of all decision making. New products are only developed when the business fully understands the needs and wants of the customers. This means that when new products are developed, they are much more likely to be accepted by the target market.



Overview
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South Korean company Dot [Dot](http://dotincorp.com/) (<http://dotincorp.com/>) is an example of a business that has to be market oriented. Dot, a certified B Corp, makes assistive technologies for people who are visually impaired. In order to be successful, the company would need to understand the needs of the community it serves by carrying out extensive market research. Dot's products must be created with those needs in mind and piloted with consumers to ensure that they work for them.

Amazon is another company that is focused on its markets. The company uses sophisticated technology to gather data on people's shopping habits and their reviews of products. The company is able to use this information to make changes to its marketing mix in order to meet customers' expectations.

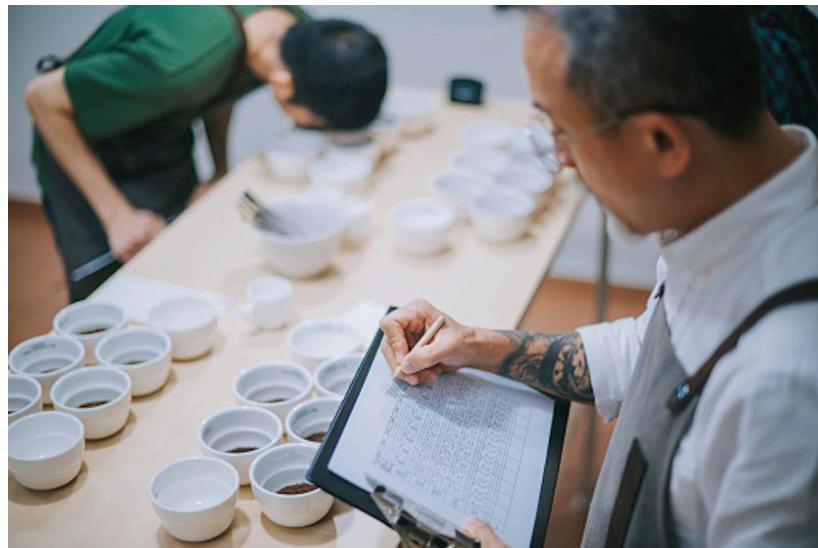


Figure 3. Food businesses that are market oriented will want to carry out extensive research to find out what flavours consumers like.

Credit: Edwin Tan, Getty Images

🔑 Concept

Change

To be market oriented means to be able to adapt quickly to changing external conditions. In other words, businesses need to carry out excellent market research and be flexible to respond to the changing external environment.

However, there are downsides to this customer-centred approach. Firstly, a business might develop a product based solely on its target market's needs, but its competitors can do the same. This means that the business cannot develop a unique selling point (USP), so sales and profits may be lower. Secondly, there can be problems relating to how market research is carried out. If the wrong questions are asked, products can be developed that will be rejected by the consumer once they are launched.

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Student view

A social enterprise is more likely to be market oriented than product oriented. Because social enterprises focus on meeting human needs, or on solving problems in society or the environment, they need to understand those needs or problems thoroughly before developing a good or a service, or before taking other action. **Table 2** outlines some advantages and disadvantages of market orientation.

Table 2. Advantages and disadvantages of market orientation.

Advantages	Disadvantages
Low risk. There is likely to be product—market fit and, for products to be sold, this means increased revenues and profits.	No USP. Other companies can carry out the same market research to find appropriate products, so competition may be greater.
Repeat customers. With high product—market fit, repeat business is more likely, resulting in increased revenues and profits.	Market research must be right. Poor market research could result in poor product development.
Social enterprises: These will want to be market oriented in order to meet human needs or to solve problems in society or the environment.	Agility. Businesses must be responsive to changing market conditions; this can be difficult for some companies

Case study

Research into messenger RNA (mRNA) technologies has resulted in a number of new applications important for human health.

mRNA is a genetic molecule that exists in the cells of the human body. It gives the cells instructions to create the proteins necessary for the cell to function. mRNA can be created in a laboratory, and several pharmaceutical companies are researching how the molecule can be programmed to fight disease. For example, when mRNA is used in a vaccine, the immune system is trained to act against an infection as though the immune system had been exposed to a virus.

Pharmaceutical businesses could use mRNA technology to provide a very specific and fast response to diseases. The technology could be used to combat cancer or to reduce the immune responses that cause autoimmune diseases.

Scientists believe that mRNA could have wide, and yet unknown, applications for many other diseases too. For example, researchers are experimenting with mRNA vaccines to treat diseases such as malaria, Zika, flu and Lyme disease, as well as cancers and multiple sclerosis. Scientists have been working on mRNA vaccines for years, but proof that they work only came in around 2019.



Overview
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Figure 4. mRNA technologies can be used to develop vaccines, but they also have a wide range of other possible applications.

Credit: Joao Paulo Burini, Getty Images

Investment in research and development in this field is now huge. Many believe mRNA technologies could be the future of the entire pharmaceutical industry. Moderna (USA) and BioNTech (Germany) are two of the largest companies currently researching and experimenting with mRNA technologies. They have also produced two of the most effective COVID-19 vaccines.

Both Moderna and BioNTech have earned huge revenues from their COVID-19 vaccines. In 2021, Moderna earned more than 11 billion USD and BioNTech earned more than 13 billion USD. So, the huge sums of money spent in researching and developing this new technology have paid off in meeting a clear market need in the case of COVID-19. There are hundreds of other companies working on mRNA technologies, but the success of these two companies with their COVID-19 vaccines will give them a major lead, because they can reinvest their profits into further research in a positive feedback loop.

The potential for mRNA technologies indicates a growing market, but one that is very uncertain moving into the future.

Questions

1. Describe a human need that is being met through mRNA product development. [2 marks]
2. Define product orientation. [2 marks]
3. Define market orientation. [2 marks]
4. Explain how the research into mRNA technologies could be classified as both product orientation and market orientation. [4 marks]

Question 1

Considering the social foundation in the Doughnut Economics Model, the human need that is being directly met by mRNA technology is 'health'. This is because the technology is being used to fight viruses such as COVID-19. Scientists anticipate that mRNA technology will also have wide-ranging applications for cancer, multiple sclerosis and other diseases.

You could also refer to the SDG3 Good health and wellbeing, for the same reasons.

Describe is an AO1 level command term, requiring a detailed account. Describe what something is.

- To achieve full marks, you must always include theory and application to the case study in your responses.

Question 2

Product orientation is where a business prioritises research and development of high quality, specialised products rather than prioritising market research.

Define is an AO1 level command term, requiring a precise meaning of a word.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- Definitions do not require application to the stimulus material.

Question 3

Market orientation is where a business designs, makes and delivers products according to customers' needs and wants. Extensive and ongoing market research will be at the centre of all decision making.

Define is an AO1 level command term, requiring a precise meaning of a word.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- Definitions do not require application to the stimulus material.

Question 4

The research into mRNA technologies could be classified as product orientation. Product orientation is where a business prioritises research and development of high quality, specialised products, instead of market research. Spending is allocated to the development of products, regardless of whether the business has identified a market to sell to. In the case of mRNA technologies, there has been a huge amount of research and development into the new technology without knowing exactly what the applications for human health will be. Even though scientists think that there will be a market for the technology, it was not known from the outset.

However, research into mRNA technologies could also be classified as market orientated. Market orientation is where a business designs, makes and delivers products according to customers' needs and wants. Extensive and ongoing market research will be at the centre of all decision making. It is clear that there are many diseases, like certain types of cancer and multiple sclerosis, that do not yet have effective treatments. If scientists believe that mRNA technologies could be used to treat those diseases effectively, they could be orienting on market needs.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain why, explain how.

- Both product orientation and market orientation need to be explained. Other responses are possible and would be rewarded if appropriate.
- To achieve full marks, you must always include theory and application to the case study in your responses to the explain command term.



Overview
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🌐 International Mindedness

The international cooperation between German company BioNTech and US company Pfizer to produce and distribute a COVID-19 vaccine is an example of how businesses can work together to meet global human needs.

In this case, the companies worked together to improve human health by combining BioNTech's experience in mRNA technologies with Pfizer's production and supply chains, producing a vaccine needed worldwide.

2 section questions ^

Question 1

Which of the following is a disadvantage of taking a product-oriented approach?

- 1 There may not be a market for the product. ✓
- 2 A unique selling point is not likely.
- 3 There may be too much competition.
- 4 The product will not be creative.

Explanation

The key disadvantage of product orientation is that there is no guarantee customers will want to buy the final product. If this is the case, then large sums of investment can be wasted.

If successful, then a unique selling point is likely when a business is product oriented. The product will be different from the competition. The product is likely to be innovative.

Question 2

How do businesses that are market oriented determine what products to produce?

- 1 By carrying out market research ✓
- 2 By carrying out product research and development
- 3 By using extensive promotion

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4 By changing prices

Overview
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cid-
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Explanation

Businesses that are market oriented are completely focused on the needs and wants of the customer. To find out about those needs and wants, the business does extensive market research.

Research and development refers to products, rather than markets. Promotion refers to the attempt to convince customers to buy a product. This would happen after a product is created. Changing prices is a marketing strategy that is used to affect how much of a product consumers buy. It does not refer to the process of determining what to produce.

4. Marketing / 4.1 Introduction to marketing

Market share and market growth

Market share Market share Market growth 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.

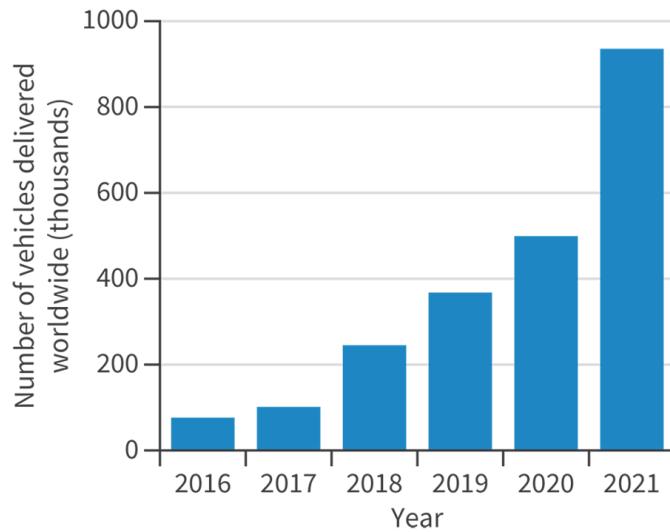


Figure 1. Number of Tesla vehicles delivered worldwide 2016–2021.

Source: Tesla press releases, Q4 2016–2021

More information for figure 1



Student view

The image is a bar chart illustrating the number of Tesla vehicles delivered worldwide from 2016 to 2021. The X-axis represents the years from 2016 to 2021, and the Y-axis shows the number of vehicles delivered, with values ranging up to 1 million. Each bar represents the total number of vehicles delivered in a year, showing an increasing trend over the period. In 2016, the deliveries were around 76,000

vehicles, gradually rising each year. By 2021, the deliveries reached approximately 936,000 vehicles, reflecting Tesla's growing production capabilities over these years.

[Generated by AI]

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

Overview
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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?

$$\text{Market share} = \frac{2000}{3000} \times 100 = 66.67\%$$

The market share for Business X is 66.67%.

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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36532/\)](#). Endless growth is not sustainable, either economically for individual businesses or environmentally.

Overview
(/study/app/business-hl/sid-351-cid-762729)

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 \(/study/app/business-hl/sid-351-cid-762729/book/tool-business-plan-id-36505/\)](#)). 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/>).

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 \(/study/app/business-hl/sid-351-cid-762729/book/the-doughnut-economics-model-id-36500/\)](#)), or the social [sustainable development goals \(SDGs ↗](#) (<https://sdgs.un.org/goals>)).

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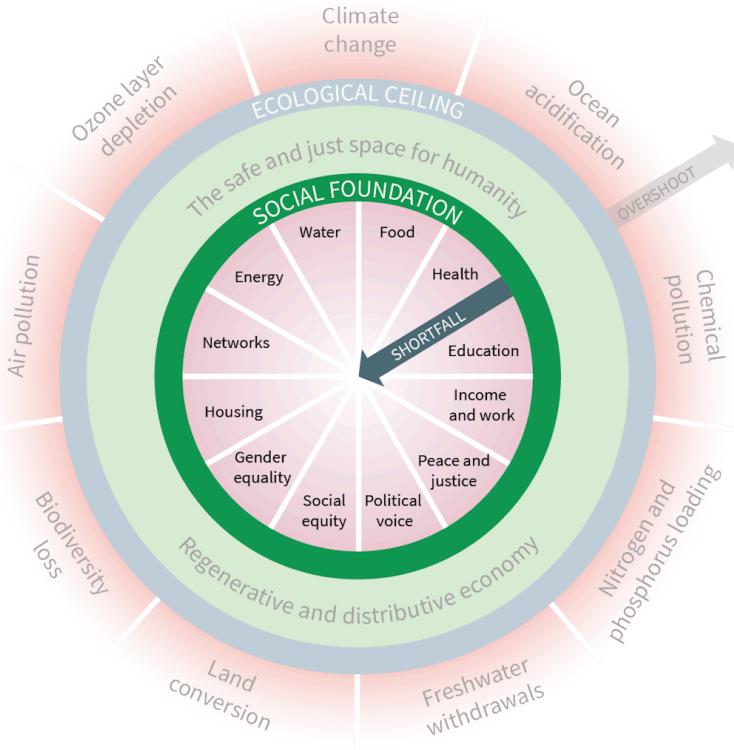


Figure 2. The Doughnut Economics Model. (Click to enlarge image.)

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

[More information for figure 2](#)

The image is a diagram of the Doughnut Economics Model. It is circular and consists of two main concentric rings. The inner ring, labeled 'Social Foundation', includes sections such as Water, Food, Health, Education, Income and Work, Peace and Justice, Political Voice, Social Equity, Gender Equality, Housing, Networks, and Energy. This inner circle represents the minimum standards of social well-being.

Outside this inner circle is a larger ring labeled 'Ecological Ceiling', which contains segments labeled Climate Change, Ocean Acidification, Chemical Pollution, Nitrogen and Phosphorus Loading, Freshwater Withdrawals, Land Conversion, Biodiversity Loss, Air Pollution, and Ozone Layer Depletion. This outer boundary represents the environmental limits that society must not exceed to sustain life on Earth.

Arrows labeled 'Shortfall' and 'Overshoot' illustrate gaps between social needs and ecological impacts. The area between the two circles, labeled "The safe and just space for humanity", indicates the optimal zone for human and ecological prosperity.

[Generated by AI]

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 \(/study/app/business-hl/sid-351-cid-762729/book/the-doughnut-economics-model-id-36500/\)](#)).
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 \(/study/app/business-hl/sid-351-cid-762729/book/tool-business-plan-id-36505/\)](#)) is involved in this situation?

X
 Student view

$$1. \frac{(60 \text{ million} - 3 \text{ million})}{3 \text{ million}} \times 100 = 1900\%$$

2. Referring to the Doughnut Economics Model, electric vehicle manufacturers may be meeting human needs for the following:

- **Networks.** Vehicles enable human beings to connect with one another across distances.
- **Work and income.** Vehicles enable human beings to reach workplaces and earn incomes.

Other needs are possible if explained appropriately.

Referring to the SDGs, electric vehicle manufacturers may be meeting human needs for the following:

- **SDG8 decent work and economic growth.** Vehicles enable human beings to reach workplaces and their production supports economic growth.
- **SDG12 responsible consumption and production (possibly, see next question).** Electric vehicles use electricity, which can be produced using renewable resources.

3. The following is one line of reasoning; other arguments are possible. On the one hand, the increase in electric vehicles means that more renewable energy could be used to fuel cars and trucks. This can possibly reduce greenhouse gas and other emissions, putting less pressure on the **climate change and air pollution** planetary boundaries.

However, this will only be the case in areas where renewable energy is available. So whether or not this represents an improvement depends on how quickly countries can build out their renewable energy infrastructure.

An additional issue is that the production of these cars will use a huge amount of resources and will likely result in large amounts of waste. Even if all the vehicles are using renewable energy as fuel, the resources needed to produce the cars will increase **land conversion and freshwater withdrawals** and will likely harm **biodiversity**. **Chemical pollution** is also likely to increase.

On balance, the enormous growth predicted for electric vehicles between now and 2040 may be more negative than positive for sustainability goals.

4. **Legal factors.** The article mentions that there are strict legal restrictions on buying and using vehicles with internal combustion engines (that run on fossil fuels). It also mentions that Chinese vehicle manufacturers will more or less be required to produce EVs with the New Energy Vehicle credit system established by the government.

2 section questions ^

Question 1

In a city there are four international schools. The information below shows the number of students in each school. What is the market share of School B?

School A 1850

 School B 2000

 School C 1100

 Overview
(/study/app/hl/sid-351-cid-762729/c)

School D 750

1 Approximately 35%



2 Approximately 32%

3 Approximately 19%

4 Approximately 13%

Explanation

School B's market share is $\frac{2000}{5700} \times 100 = 35\%$

Question 2

The value of the second-hand clothing market is projected to be \$64 billion in 2024 and \$77 billion in 2025. Calculate the projected market growth for second-hand clothing from 2024 to 2025.

1 Approximately 20%



2 Approximately 17%

3 Approximately 15%

4 Approximately 13%

Explanation

market growth = $\frac{(\text{total market sales T2} - \text{total market sales T1})}{\text{total market sales T1}} \times 100 = \text{_____ \%}$

$\frac{(77-64)}{64} \times 100 = 20\%$

4. Marketing / 4.1 Introduction to marketing

Importance of market share and market leadership (HL)

Market share and market leadership (HL)


 Student view

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.

Overview
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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 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 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39004/\)\)](#)

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.

Overview
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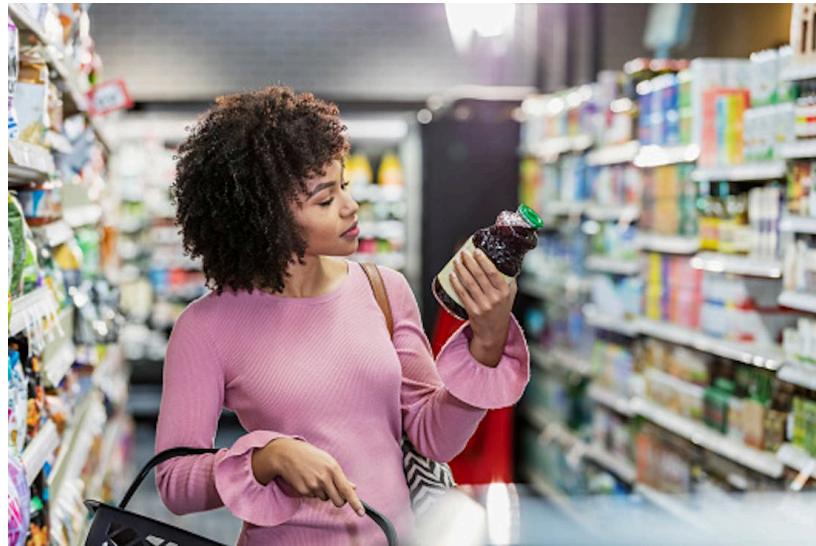


Figure 1. Retailers are more likely to stock the products of market leaders.

Credit: kali9, Getty Images

Brand recognition ([Section 4.5.2 \(/study/app/business-hl/sid-351-cid-762729/book/product-branding-packaging-id-39006/\)](#))

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
Velcro	Hook and loop fabric fasteners
Band-Aid	Adhesive bandages (plasters)



Student
view



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

Credit: Blanqui Costela, Getty Images

Economies of scale ([Section 1.5.2 \(/study/app/business-hl/sid-351-cid-762729/book/internal-and-ext-economies-id-36534/\)](#))

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 \(/study/app/business-hl/sid-351-cid-762729/book/pricing-methods-id-39007/\)](#))

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.~~ Assign

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 \(/study/app/business-hl/sid-351-cid-762729/book/internal-and-ext-economies-id-36534/\)](#) 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%20E2%82%AC40%20million) (<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%20E2%82%AC40%20million>) describes the acquisition of Matthew Walker 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.	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. A dominant company in an industry will also have pricing power. It may be able to raise prices for consumers due to low competition.
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.)

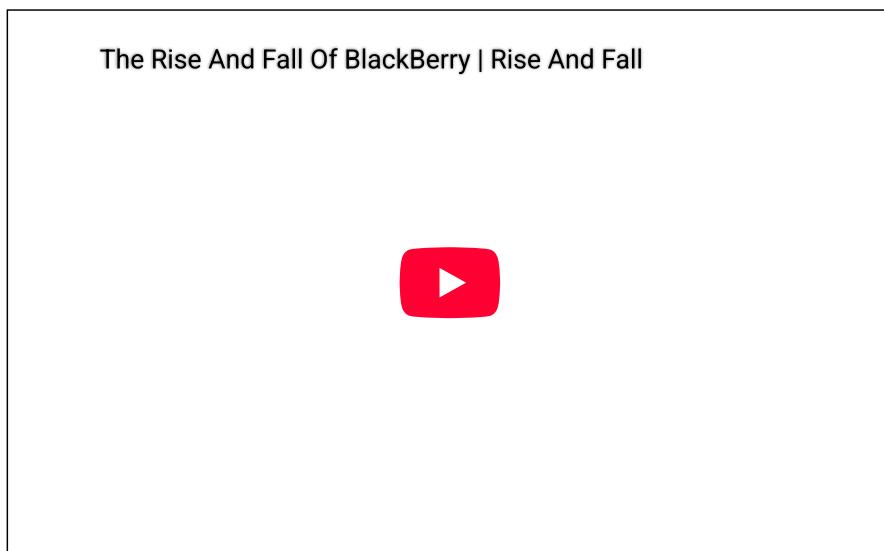


Disadvantages of market leadership for the business, the economy, society and the environment

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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.



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

X
Student view

Overview
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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) (<https://sdgs.un.org/goals>) as you consider the impacts of the market growth and market leadership in this industry.



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view

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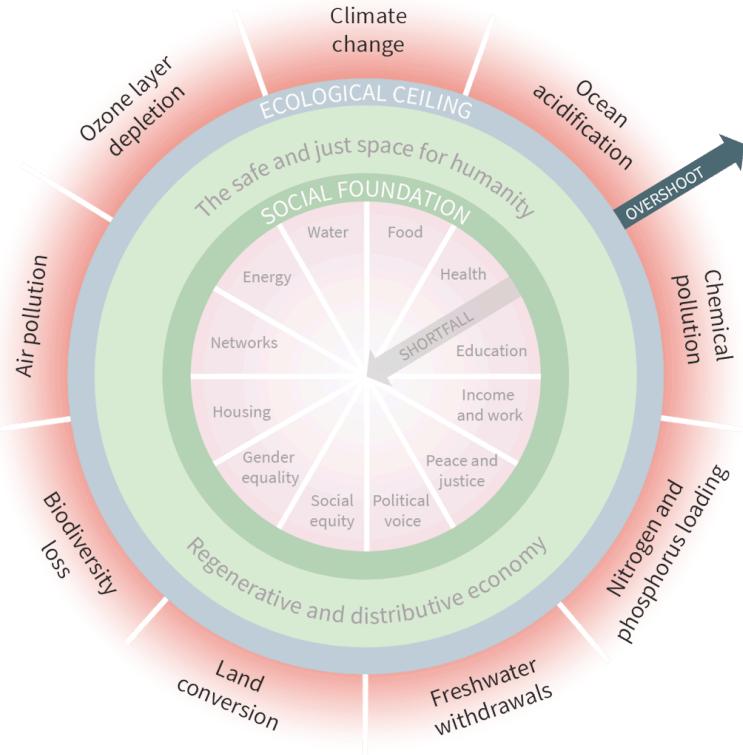


Figure 4. The Doughnut Economics Model — the planetary boundaries are on the outer ring. (Click to enlarge image.)

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

More information for figure 4

The image depicts the Doughnut Economics Model, consisting of two concentric rings. The outer ring represents the "Ecological Ceiling" with issues like "Climate Change," "Ocean Acidification," "Chemical Pollution," "Nitrogen and Phosphorus Loading," "Freshwater Withdrawals," "Land Conversion," "Biodiversity Loss," "Air Pollution," and "Ozone Layer Depletion." Crossing these boundaries results in "Overshoot."

The inner ring is labeled "Social Foundation," featuring sectors such as "Energy," "Water," "Food," "Health," "Education," "Income and Work," "Peace and Justice," "Political Voice," "Social Equity," "Gender Equality," "Housing," and "Networks." The space between these rings is labeled "The Safe and Just Space for Humanity," implying sustainability within these boundaries. An arrow marked "Shortfall" points inward, indicating inadequacies within the social foundation.

[Generated by AI]

3 section questions ^

Question 1

The market leader is the product or brand with the highest market share.

Student view

Overview
(/study/app/hl/sid-351-cid-762729/c)

Accepted answers and explanation

#1 market leader

Market leader

General explanation

A market will normally have a number of businesses that produce the same or similar products. Each product will sell to a certain number of consumers out of the total in the market, or earn a certain amount of the total revenue earned in the market. The percentage of the market that a product controls is called its share. The market leader is the product that has the highest market share.

Question 2

Which of the following is **not** an advantage for a business of being the market leader?

- 1 Diseconomies of scale ✓
- 2 Access to distribution channels
- 3 Brand recognition
- 4 Price leadership

Explanation

A market leader will be able to access more distribution channels because retailers will want to stock a popular product.

A market leader will have brand recognition because its product is already widely purchased in the market. This will also make it easier for the business to market new products.

A market leader will often be a price leader. Other businesses will look to the market leader to establish the 'right' price for the product and will also price their products at a similar level.

A market leader should experience economies of scale, not diseconomies of scale. This is because the large size of the market leader will allow it to find unit cost savings.

Question 3

A market leader may be able to raise the prices of its product because of price leadership and lack of competition. The stakeholder group for whom this will be a problem is the customers ✓.

Accepted answers and explanation

#1 customers

consumers

Student view

General explanation

Home
Overview
(/study/app/business-hl/sid-351-cid-762729/c)

If a market leader can command higher prices, this will be a problem for those who buy the product at higher prices. The group that buys products is known as customers, or consumers.

4. Marketing / 4.1 Introduction to marketing

Terminology exercise

Section

Student... (0/0)

Feedback

Print

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Assign

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

The term has three distinct meanings: a place where buyers and sellers come together or interact, a location and a type of product. The term includes all of the processes involved in identifying and satisfying customer needs. Businesses need to develop an appropriate in order to meet those needs. This includes product, price, promotion and place. For service markets there are additional considerations related to process, physical evidence and .

The marketing of for-profit commercial and for-profit social enterprises might include growth targets and circular product development. The marketing objectives of enterprises may have a different focus, relating to fundraising, raising awareness, or political action.

Check



Question: 1 of 2 questions

Interactive 1. Mastering Marketing Terms.

4. Marketing / 4.1 Introduction to marketing

Tool: BCG matrix

Tool: Boston Consulting Group (BCG) matrix

Section

Student... (0/0)

Feedback

Print

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Assign



Student view

Overview
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The Boston Consulting Group (BCG) matrix, also known as a growth-share matrix, is a tool that helps businesses that have multiple products to decide on their marketing strategies. Products are placed onto the matrix depending on two variables: market share and market growth.

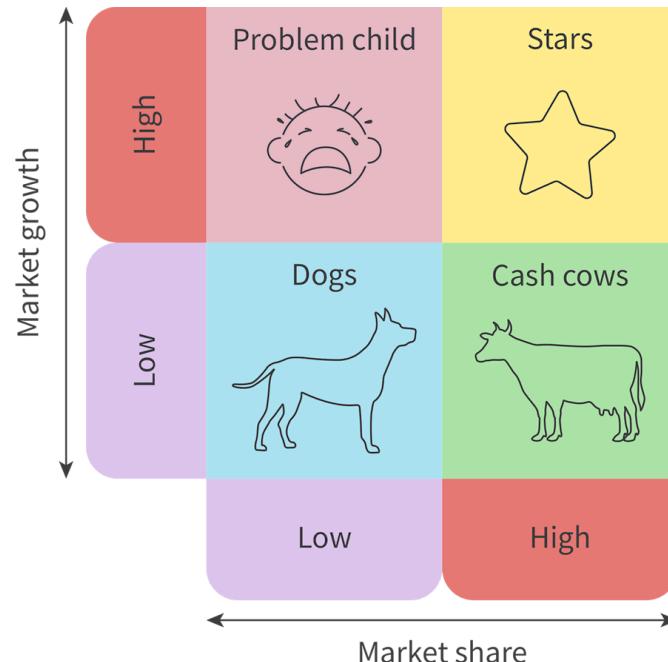


Figure 1. The Boston Consulting Group (BCG) matrix, also known as a growth-share matrix.

[More information for figure 1](#)

The image shows a Boston Consulting Group (BCG) matrix, also known as a growth-share matrix. It is a 2x2 grid that categorizes products based on market share (horizontal axis) and market growth (vertical axis).

1. Problem Child (Question Marks):

2. Located in the top-left quadrant.
3. Represents high market growth but low market share.
4. Depicted with a crying child icon.

5. Stars:

6. Located in the top-right quadrant.
7. Represents high market growth and high market share.
8. Depicted with a star icon.

9. Dogs:

10. Located in the bottom-left quadrant.
11. Represents low market growth and low market share.
12. Depicted with a dog icon.

13. Cash Cows:

x
Student view

Home
Overview
(/study/app/business-hl/sid-351-cid-762729/c)

14. Located in the bottom-right quadrant.
 15. Represents high market share but low market growth.
 16. Depicted with a cow icon.
- The axes are labeled accordingly with "High" and "Low" to indicate the levels of market growth and market share.

[Generated by AI]

The BCG matrix can also serve as a reminder to businesses to build a diverse portfolio of products. Businesses may need a range of products that they can rely on for growth and for steady revenue streams. It is a good idea to have products that are earning large revenues, as well as products whose sales grow rapidly in growing markets. A business may also want to phase out products that are earning low revenues in markets that are not growing.

Products can be classified differently over time. When a product is first introduced in a market, it may have low market share and revenues in growing markets. Later, those products may gain market share in these strong markets. Eventually, products may again lose market share, or their market growth may decline.

These stages are linked to a product life cycle, which will be discussed in [Subtopic 4.5 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39004/\)](#).

Market share and market growth

In [Section 4.1.4 \(/study/app/business-hl/sid-351-cid-762729/book/market-share-and-leadership-id-37439/\)](#), you learned that market share is the percentage of total market sales controlled by a particular product. The formula for calculating market share is:

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

For example, an electronics company sells \$200 million worth of goods in a year. The entire industry sells \$1000 million worth of goods in that same year. The company's market share is:

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

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

Market growth refers to the total value or quantity of a particular good that is sold in a time period. The formula for calculating market growth is a simple percentage change:

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

Student view

For example, an international clothing brand knows that the entire clothing market sales were \$950 million in 2020 and \$1000 million in 2021. It can then calculate the percentage growth of the market from 2020 to 2021 as follows:

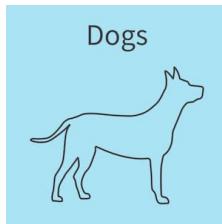
$$\text{Market growth} = \frac{(\$1000 \text{ million} - \$950 \text{ million})}{\$950 \text{ million}} \times 100 = \underline{\hspace{2cm}} \%$$

Market growth = 5.26%

Product classifications in the BCG matrix

Table 1 describes the product classifications in the BCG matrix.

Table 1. The product classifications in the Boston Consulting Group (BCG) matrix.

Type of product	Market share and market growth (high/low)	Description
Cash cows 	High market share. Low market growth.	Cash cows are successful products in mature, slower-growing markets. They earn high sales revenue from an established customer base. Customer loyalty is likely to be high. Therefore, less money is needed for marketing. Promotion is likely to focus on replacement products and maintaining loyalty.
Dogs 	Low market share. Low market growth.	Dogs have low market share in low growth markets. These products may be at the end of their product life cycle (Section 4.5.1 (/study/app/business-hl/sid-351-cid-762729/book/product-life-cycle-id-39005/)), or perhaps they are <u>niche products</u> competing in mature low-growth markets.



Type of product	Market share and market growth (high/low)	Description
 Stars	High market share. High market growth.	Stars are products that have a high market share in growing markets. Revenues should be growing strongly. Netflix can be considered a star product, as it is the market leader in the rapidly growing streaming market. This type of product also requires significant investment to sustain growth. Marketing will focus on attracting new customers and establishing a brand image. Profitability will depend on how much its revenue is reinvested in future growth. Certainly, high growth businesses will be spending heavily to keep expanding their operations and sales. Therefore, it is possible for a star to have a negative cash flow.
 Problem child	Low market share. High market growth.	Problem children (also known as 'question marks') have low market share but operate in high growth markets. These products are often recently launched in response to the rapidly growing revenues of competitors. In the streaming market, Amazon's Prime or Hulu can be considered in this category. If they are to gain market share, considerable investment will be required. Therefore, they are likely to have a negative cash flow.

International Mindedness

The product categories in the BCG matrix use terminology that may not work well across all cultures. The matrix was developed by the Boston Consulting Group, an American management consulting firm. The matrix uses slang terminology that would be well-known in the United States, but which may mean something different in other countries.

However, the matrix can work without these categories because it is essentially a product position map with two axes referring to high and low market growth and high and low market share. You will learn more about product position maps in [Section 4.2.2 \(/study/app/business-hl/sid-351-cid-762729/book/segmentation-and-targeting-id-37445/\)](/study/app/business-hl/sid-351-cid-762729/book/segmentation-and-targeting-id-37445/).

Activity

Learner profile: Inquirers

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

Look at the data on [the number of users of messaging apps globally](https://www.messengerpeople.com/global-messenger-usage-statistics/)  (<https://www.messengerpeople.com/global-messenger-usage-statistics/>) and then answer the following questions:

1. Assume that WhatsApp, Facebook Messenger, WeChat, QQ, Telegram and Snapchat are the most significant apps used globally in October 2021. Calculate the market share of each of these apps. (These will be approximations, because there are apps used that are not accounted for in these figures.)
2. Global figures can be misleading about market share in particular countries. Do some quick research to find out what the most popular messaging app is in your country. The source linked above has some specific country information.
3. At first glance, it may look as if there are several businesses with high market share in the messenger apps market. However, note also the following information:
 - Facebook (now Meta) bought WhatsApp in 2014 for 19 billion USD.
 - WeChat is not used widely outside China.

How might this further information change your interpretation of the data?

4. If you wanted to classify WhatsApp in the BCG matrix, what other information would you need to know?

1. If we assume that the top five apps account for all the users, the total market size is 6230 million (6.23 billion) users. (In reality the top five apps do not account for all the users, but we are using this assumption for the sake of practising market share calculations.)

The following calculations are in millions of users:

WhatsApp market share = $(2000 \div 6230) \times 100 = 32.1\%$

Facebook Messenger market share = $(1300 \div 6230) \times 100 = 20.9\%$

WeChat market share = 20.2%

QQ market share = 9.5%

Telegram market share = 8.8%

Snapchat = 8.6%

2. Answers will vary.

3. Meta (formerly Facebook) owns both WhatsApp and Facebook Messenger. This means that the global market share could be around 50% for Meta. Considering that WeChat is not used widely outside China, it would mean that, for many countries, Meta would monopolise the messenger app market with Messenger and WhatsApp.

4. If you wanted to classify the messenger apps in the BCG matrix, you would need to know how quickly the market for messenger apps is growing. Unfortunately, reliable data about the market growth for messenger apps is not easy to find outside of paid market reports.

Exam tip

If you are using the BCG matrix in your internal assessment, make sure you can justify your classification using data on market growth and market share. A gut feeling about where products



would be positioned in the matrix is not enough.

Uses and limitations of the BCG matrix

[Assign](#)

The BCG matrix can be a useful framework for businesses to consider different strategies for different products in their portfolio. Businesses can identify which products may have the potential to earn the highest revenues. For example, stars in the matrix are doing well with high market share in growing markets. But to maintain the high market share in a growing market, the business may have to invest money in the product and be flexible to respond to increasing competition. The business can use the BCG matrix to guide some investment decisions.

Like all business management tools, you must use the BCG matrix carefully along with other methods of analysis to make judgements about a business. If you do not have clear data on a product's market share and market growth, your classification of products in the BCG matrix will be subjective. Even where you have data, the information does not consider other information about the external environment that can have an impact on the success of the product.

An example of this issue is the 'problem child' classification. Low market share in a high growth market could tell you that there is not a good product–market fit. But low market share in a high growth market can also occur when a product is newly introduced to a market. So some sources label the 'problem child' element of the BCG matrix as a question mark instead.

Another example is the 'dog' classification. A business might think that low market share in a low growth market means that the product should be phased out. However, there could be strong reasons to keep it in the portfolio, such as future market growth due to changes in the external environment. It is important to consider the product life cycle ([Section 4.5.1 \(/study/app/business-hl/sid-351-cid-762729/book/product-life-cycle-id-39005/\)](#)), the external environment and even the internal strengths and weaknesses of the business in order to understand the full context when making strategic decisions.

4. Marketing / 4.1 Introduction to marketing

Checklist

Section

Student... (0/0)

Feedback

Print

(/study/app/business-hl/sid-351-cid-762729/book/checklist-id-37442/print/)

[Assign](#)

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
 - market orientation
 - product orientation
 - market share
 - market growth





- market leader
- explain the meaning of market and marketing (AO2)
- describe marketing objectives for for-profit commercial and social enterprises, and non-profit social enterprises (AO1)
- distinguish between market orientation and product orientation (AO2)
- distinguish between market share and market growth (AO2)
- calculate market share and market growth for given data (AO4)
- discuss the importance of market share and market leadership (HL only) (AO3)
- apply the Boston Consulting Group matrix in a given context (AO2)

4. Marketing / 4.1 Introduction to marketing

Reflection

Section

Student... (0/0)

Feedback

Print

(/study/app/business-hl/sid-351-cid-762729/book/reflection-id-48328/print/)

Assign



Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	Concept: Ethics
2	Concept: Sustainability
3	Concept: Change

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.



Reflection

In this subtopic you learned about market share and market growth.

Home
Overview
(/study/app/
hl/sid-
351-
cid-
762729/c
—

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.

1. Think of a social enterprise in your area that has recently increased its market share. How can a business remain ethical and pursue increasing market share?
2. To what extent does market growth contradict the concept of environmental sustainability?
3. Have you ever used a product that was a market leader? Which one? Do you still use it today and what do you predict for its future?

 Once you submit your response, you won't be able to edit it.

0/2000

Rate subtopic 4.1 Introduction to marketing

Help us improve the content and user experience.



 Student
view