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Neil James

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Contents

3 Decision making to improve marketing performance

You need to know

- marketing objectives: the value of setting them and the internal and external influences
- how to calculate market share, size, growth and growth in sales
- the value of primary and secondary research and sampling
- how to interpret marketing data, including correlation, confidence intervals and extrapolation
- the value of technology in gathering and analysing data
- the interpretation of price and income elasticity of demand and their value in marketing decisions
- the influences on and value of segmentation, targeting and positioning

Marketing is defined as 'the process responsible for identifying, anticipating and satisfying customer requirements profitably'.

3.1 Setting marketing objectives

Figure 9 shows the role of marketing in providing the link between a business and its customers.

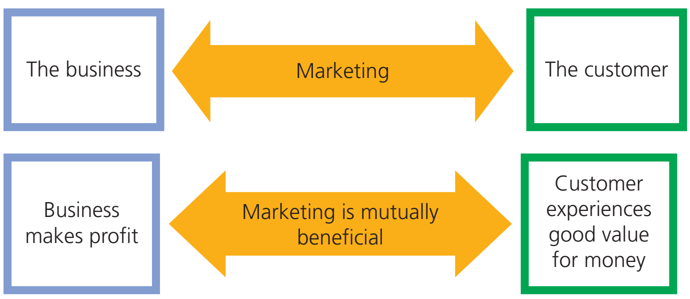

Figure 9 Marketing: the link between the business and the customer

Marketing objectives might include:

- sales volume and sales value targets
- market and sales growth targets
- **market share** targets
- market size — knowing this enables realistic targets to be set

Key term

Market share The percentage of a market's total sales that is earned by a particular company over a specified time period.

Value of setting marketing objectives

The value of setting objectives might include:

- target setting — gives focus and sense of direction
- motivation — can be motivating for those responsible
- evaluating performance — can be used to judge performance

Calculations for evaluating various marketing objectives are:

Market share	$\frac{\text{sales of firm}}{\text{total market sales}} \times 100$
Sales growth	$\frac{\text{difference in sales}}{\text{earliest year}} \times 100$
Market growth	$\frac{\text{difference in sales}}{\text{earliest year}} \times 100$
Market size	$\frac{\text{sales}}{\text{market share}} \times 100$

Exam tips

- Students sometimes assume that just because sales are growing, market share automatically increases. This is not always the case, as in a growing market the sales of an individual business may be rising at a slower rate than others in the market.
- The calculations you will be asked to perform in examinations are normally very straightforward provided you have learnt the formulae and undertaken regular practice of them.

Influences on marketing objectives and decisions

External and internal influences on marketing objectives and decisions are given in Table 5.

Table 5 External and internal influences on marketing objectives and decisions

External	Internal
■ Market and competition ■ Economic factors ■ Social factors ■ Ethics ■ Technology	■ Finance available ■ Production capacity ■ Human resources ■ Nature of product

Do you know?

1. What are the benefits of setting marketing objectives?
2. What is the difference between sales volume and sales value?

3.2 Understanding markets and customers

Value of primary and secondary market research

A business should fully understand the market it operates in. **Market research** helps by:

- studying market trends and characteristics
- establishing consumer profiles
- analysing market shares and potential of existing products
- forecasting sales for products
- analysing and forecasting sales of new products

Figure 10 shows the process of market research.

Key terms

Market research The process of gathering data on potential customers in order to reduce risk in decision making.

Primary research The collection of information for the first time for specific purposes.

Secondary research The collection of data that already exist and have been used for other purposes.

Primary and secondary research

Market research might be **primary** or **secondary** (Table 6).

Table 6

Primary research	Secondary research
▪ Also known as field research ▪ Collects first-hand information ▪ Answers specific issues or questions ▪ Can be expensive	▪ Second-hand research ▪ Uses data that already exist ▪ Is cheap to collect ▪ May not be directly related to the business

Sources of primary and secondary research are given in Table 7.

Table 7 Sources of primary and secondary research

Primary research	Secondary research
▪ Surveys/questionnaires ▪ Observation ▪ Focus groups ▪ Test marketing	▪ Published reports ▪ Government/agency data ▪ Internet

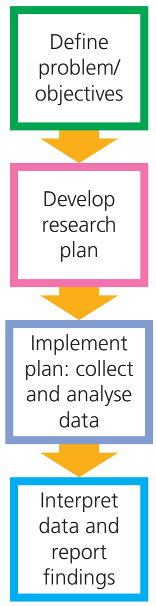

Figure 10 The process of market research

Qualitative and quantitative research

Market research may also be separated into qualitative and quantitative research.

Qualitative market research:

- is designed to discover attitudes and opinions
- is collected from small groups known as focus groups
- may enable a business to design more appealing products

It can reveal consumer reactions to the:

- product
- pricing
- packaging

Quantitative market research:

- is the collection of data on consumer views
- can be statistically analysed
- can be represented in charts and graphs

Market mapping

Key features:

- enables a business to establish the position of its product(s) in the market
- reveals where most competition is
- may identify gaps in the market

In order to do this:

- two key features of a product or service are identified, for example price and quality
- a grid can then be established and the business or product(s) can be placed on the grid according to the quality (high or low) and price (high or low), as shown in Figure 11

Figure 11 Market map of the UK supermarket industry

Exam tip

It is not enough to know the various methods of market research. You need to be able to make some assessment of their value in particular circumstances.

Key terms

Qualitative research Research into the attitudes and opinions of consumers that influence their purchasing behaviour.

Quantitative research The collection of information on consumer views and behaviour that can be analysed statistically.

Market mapping A diagram that identifies all the products in the market using two key features, for example price and quality.

Exam tip

Do not assume that simply stopping every third person in the street will give a genuinely random sample. It will only give you a sample of people who are in the street at that time.

Value of sampling

Sampling is undertaken as:

- it is impossible to interview everyone
- it reduces the cost of research

There are a number of methods of sampling:

- random sampling
- stratified random sampling
- quota sampling

The larger the sample and the more information collected, the more reliable it should be — but the greater the cost to the firm will be. Factors that may influence choice of sampling include:

- budget available
- target market
- size of market and business

Interpretation of marketing data

Marketing data can be interpreted using various statistical tools, described below.

Correlation:

- occurs when there is a direct relationship between one factor and another, for example customer income and sales, or weather and sales (see Figure 12)
- may involve a positive or negative relationship
- enables more accurate forecasting

Figure 12 A positive correlation

Extrapolation:

- uses known data to predict future data — for example, by looking at past sales figures it may be possible to predict future sales
- is achieved by extending a **trend** line on a chart or graph
- needs to be treated with caution as it assumes the future will be similar to the past
- may not be suitable for industries subject to rapid change, for example fashion and technology

Exam tips

- When assessing a business's methods of sampling, consider the costs of the chosen approach against the expected financial benefits.
- Even extensive and costly market research cannot guarantee unbiased data. Respondents do not always tell the truth and samples do not always reflect the entire population accurately.

Key terms

Sampling The selection of a representative group of consumers from a larger population.

Correlation A statistical technique used to establish the extent of relationship between two variables, such as the level of sales and advertising.

Extrapolation Analyses past performance of a variable such as sales and extends the trend into the future.

Trend An underlying pattern of growth or decline in a series of data.

Exam tip

Be careful with correlation — just because US suicides correlate with US spending on science, space and technology does not mean one causes the other.

Confidence intervals:

- a business cannot be 100% certain of market research findings
- the confidence interval allows a margin of error
- an interval of 5% indicates that researchers are sure the results are correct +/–5%
- the interval used is likely to be affected by sample size — the bigger the sample, the lower the interval

Confidence level:

- this is an expression of how confident researchers are in the data collected
- it is expressed as a percentage
- the most commonly used confidence level is 95%

Key terms

Confidence interval or margin of error The plus or minus figure used to show the accuracy of results arising from sampling.

Confidence level The probability that research findings are correct.

Technology and marketing decisions

Technology means that vast amounts of information can be collected, stored and analysed, as illustrated in Figure 13.

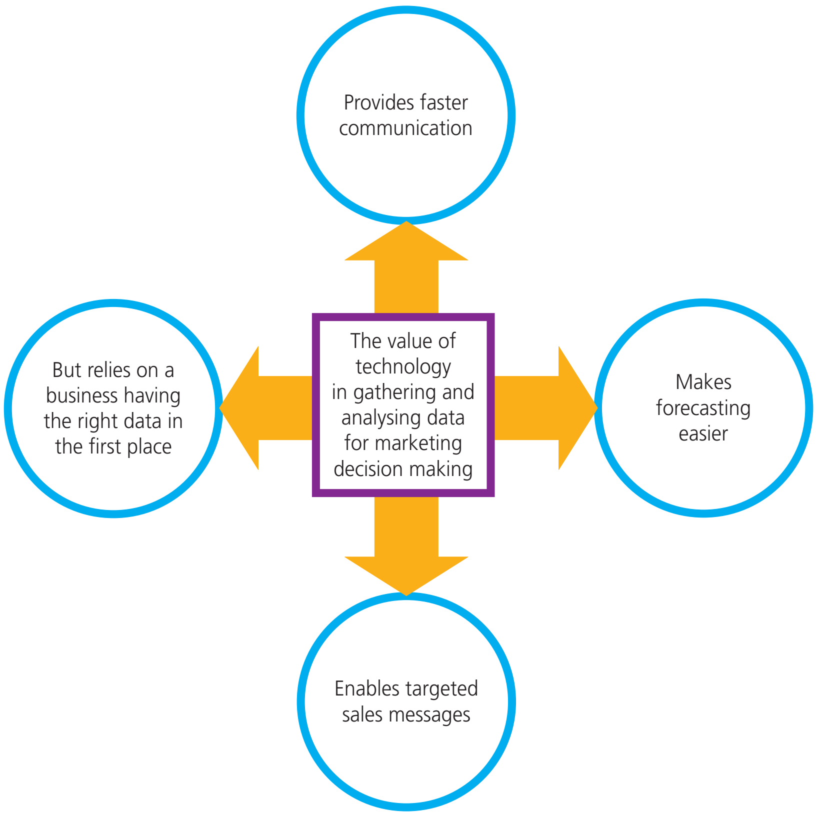

Figure 13 The value of technology in gathering and analysing data for marketing decision making

Exam tip

It is important to always look critically at marketing data. At first sight they may seem good, but have they been influenced by any other factors, such as seasonality or problems experienced by a competitor?

Price and income elasticity of demand data

Elasticity	$\frac{\text{percentage change in demand}}{\text{percentage change in variable}}$
Price elasticity of demand	$\frac{\text{\% change in demand}}{\text{\% change in price}}$
Income elasticity of demand	$\frac{\text{\% change in demand}}{\text{\% change in income}}$

An answer greater than 1 = elastic; less than 1 = inelastic (ignore minus signs).

Key term

Elasticity A measure of the responsiveness of demand to a change in a variable, for example price or income.

Exam tip

When looking at a figure for elasticity, ignore the minus sign. If the answer is greater than 1 then demand is elastic; if it is less than 1 then it is inelastic.

Elasticity and marketing decisions

Price and income elasticity:

- can be used to evaluate the impact of changes in prices and incomes on sales
- might be volume or value
- will vary according to the type of product — luxury vs necessity

The likely effects of price changes are summed up in Table 8.

Table 8 The likely effects of price changes

	Price rise	Price fall
Elastic demand	Total revenue falls	Total revenue rises
Inelastic demand	Total revenue rises	Total revenue falls

Besides elasticity, other factors considered in decision making include:

- brand loyalty
- competitor actions
- consumer tastes and fashion
- availability of substitutes

Exam tip

Elasticity changes over time and it is important in decision making to use the most up-to-date figure. A figure even a year old may be out of date as the market may have changed or competitors may have introduced new products etc.

Use of data in marketing decision making and planning

Data help reduce risk and uncertainty and create a better understanding of:

- the market
- the environment
- consumers

Do you know?

1. How does primary market research differ from secondary market research?
2. What is the value of sampling?
3. What is the difference between correlation and extrapolation?

3.3 Making marketing decisions: segmentation, targeting, positioning

Market segmentation may be by:

- age
- sex
- income etc.

Market targeting is when a business targets its marketing at a specific market segment (or target market).

Market positioning refers to how a consumer views an individual brand relative to other brands:

- price
- product
- services
- image

The objective is to have a brand that stands out in consumers' minds.

Segmentation, targeting and positioning are linked:

Segmentation → Targeting → Positioning

- segmentation breaks the market into clearly definable groups
- the group(s) to aim the product or service at will then be determined
- finally, the positioning of the product will be considered

The benefits and drawbacks of this process are given in Table 9.

Table 9 Benefits and drawbacks of this process

Benefits	Drawbacks
■ More effective marketing ■ Resources will be used more effectively ■ Sales and market share may increase	■ May overlook a potentially profitable segment ■ Changes in taste and fashion could be overlooked

Key terms

Market segmentation Dividing the market into identifiable sub-markets, each with its own customer characteristics.

Market targeting Deciding which segment a business wants to operate in.

Market positioning is where a particular brand stands in relation to other brands in the market.

Exam tip

There is a link between market positioning and market mapping. A business might use market mapping to determine the position of its product or service in the market.

Influences on choosing a target market and positioning

Influences include:

- the nature of the product
- competition
- the consumer

The benefits and drawbacks of **niche marketing** and **mass marketing** are given in Table 10.

Table 10 Niche vs mass marketing

	Niche marketing	Mass marketing
Benefits	■ May benefit from price skimming ■ Customer loyalty ■ Niche markets can be highly profitable	■ Produce on a large scale ■ Capital-intensive ■ Minimise unit costs
Drawbacks	■ May be difficult to generate sufficient profit ■ If profitable, could attract new competition	■ More competitive

Key terms

Niche marketing When businesses identify and satisfy the demands of small segments of a larger market.

Mass marketing When businesses aim their products at most of the available market.

Do you know?

1 Explain the link between segmentation, targeting and positioning.
2 What is the difference between niche and mass marketing?

End of section 3 questions

1 How is it possible for sales to increase but market share to fall?
2 Why would a business wish to achieve brand loyalty?
3 In market research, 60% of respondents preferred a particular washing powder brand. What does a 5% confidence interval tell analysts about this result?
4 A business has calculated the price elasticity of its product at −2.3. What would be the impact on revenue of a price increase?
5 Briefly outline why demand for a luxury product is likely to be income elastic.
6 Briefly outline the benefits and potential drawbacks of market targeting.