Activity 14.1 – answer provided on Student's CD-ROM.

Activity 14.2 (page 250): Demand and supply changes

For each of the following changes, identify whether they affect supply or demand and whether they cause supply or demand to increase or fall:

- **bad harvest affecting coffee crop** [1]
  If coffee crops fail, then there will be a reduction in supply.

- **Rolls-Royce cars affected by higher consumer incomes** [1]
  More consumers will be able to afford Rolls-Royce cars, causing an increase in demand.

- **fall in price of steel affects ship builders** [1]
  This is a reduction in costs of shipbuilders; therefore, more ships will be supplied at any given price, that is an increase in supply.

- **fall in price of movie downloads affects DVD market.** [1]
  Movie downloads are a substitute product for DVDs. A fall in the price of movie downloads will encourage consumers to switch from DVDs to downloads. Thus, there will be a decrease in demand.

Activity 14.3 (page 251): Rice prices to keep rising

1 Identify two supply factors and two demand factors that have led to the recent increase in the price of rice. [4]

Supply factors:
- weather: flooding in Bangladesh, cold weather in Vietnam
- town development
- price of alternative foods rising will cause producers to switch from rice production to alternative foods.

Demand factors:
- rise in consumer incomes
- increasing population is hinted at, though not stated – rice is a necessity, so demand will increase as the population increases.
- Prices of alternative foods have increased, leading to higher demand for rice.
Illustrate the impact of these factors on the equilibrium price of rice on a supply-and-demand diagram. [4]

The initial equilibrium price is $P_0$ and quantity is $Q_0$. The reduction in supply is shown by a leftward movement of the supply curve. The increase in demand is shown by a rightward shift of the demand curve. The new market equilibrium is $P_1$, $Q_1$.

When discussing a change in demand and/or supply, a diagram is a useful tool for analysis of the effect on the market price and quantity. However, care must be taken when shifting demand and supply curves. Remember that an increase in supply means that more is supplied at any given price. Thus, this is shown as a rightward shift of the supply curve (the supply curve is moving downwards.)

Activity 14.4 – research activity.

Activity 14.5 (page 253): A tale of two markets

Calculate the percentage increase in the total value of sales for market A between 2008 and 2009. [6]

Sales value is average price × quantity
Sales value 2008 $= 54,000 \times 3$
$= $162,000
Sales volume increased by 5% in 2009
Sales volume is, therefore, $54,000 \times 1.05$
$= 56,700$
Selling price has increased by 10% and is, therefore, $3 \times 1.10$
$= 3.30$
Therefore, the sales value is $56,700 \times 3.3$
$= $187,110
The increase in sales value $= 187,110 - 162,000$
$= 25,110$
The percentage increase in sales value $= 25,110 + 162,000 \times 100$
$= 15.5%$

All six marks will be awarded if correct answers are stated. However, candidates should always show how their answer was calculated so that if an error is made, process marks can still be awarded.
2 Calculate the percentage increase in total sales volume in market B between 2008 and 2009. [3]

Sales volume = sales value ÷ price
Sales volume in market B in 2009 = 180,000 ÷ 12
= 15,000
The increase in the sales volume = 15,000 − 10,000
= 5,000
The percentage increase in the sales volume = 5,000 ÷ 10,000 × 100
= 50%

All three marks will be awarded if correct answer is stated.

Activity 14.6 (page 254): Tesco is market leader in Thailand

1 Calculate Tesco Lotus’s sales in the Thai supermarket industry in 2008. [2]

Tesco Lotus has a 31% share of total market sales of $35bn. Therefore, its sales are:

0.31 × 35bn
= $10.85bn

2 If Tesco Lotus’s sales increased by $2 billion in 2009 but the total size of the Thai market increased by $10 billion, calculate Tesco Lotus’s 2009 market share. [4]

market share = sales ÷ total market sales × 100

Tesco Lotus sales would increase to $12.85bn out of a total market of $45bn. Therefore, its market share would be:

(12.85 ÷ 45) × 100
= 28.6%

3 Explain two advantages Tesco Lotus might gain from being ‘market leader’ in Thailand. [6]

- Brand recognition – consumers will be more familiar with the Tesco Lotus brand and may, therefore, be more likely to use the store. This may give Tesco Lotus more control over pricing decisions. Customers will continue to shop at Tesco Lotus even if prices are not as low as other supermarkets due to greater brand loyalty. As market leader the brand is more likely to be trusted.
- Buying power – Tesco Lotus will be able to exert pressure over suppliers to reduce prices because of the volume of its purchasing. Tesco Lotus will be able to push the price of supplies downward and can, therefore, be more price competitive in the market or enjoy higher profit margins. This is demonstrated in the case study as Tesco was able to sell school uniforms at some 20% lower than traditional shops.
4 Do you think the Thai government should place restrictions on Tesco Lotus’s future growth? Explain your answer. [8]

Any reasonable answer.

<table>
<thead>
<tr>
<th>In favour of restricting growth</th>
<th>Against restricting growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tesco Lotus may abuse its market power. For example, it may drive smaller supermarkets out of business by using destroyer prices in the short term. Once competition is eliminated, then prices will be increased.</td>
<td>• Tesco Lotus can only grow if customers are satisfied with its product offer. If Tesco Lotus does not provide customer satisfaction, customers will go elsewhere.</td>
</tr>
<tr>
<td>• The impact on suppliers should be considered. Tesco may drive down profit margins of local suppliers, who have become dependent on Tesco contracts. Tesco’s actions may even drive some suppliers out of business.</td>
<td>• Tesco Lotus is able to offer lower prices to the consumer. This is good for the consumer who, in the case of school uniforms, is benefiting from substantial savings of between 20% and 30%. This will also benefit the macro-economy through reduced inflationary pressure.</td>
</tr>
<tr>
<td>• There will be less choice in towns as independent retailers are forced out of business.</td>
<td>• Tesco Lotus will encourage other supermarkets to become more competitive in order to gain market share.</td>
</tr>
<tr>
<td>• Tesco Lotus is a foreign-owned business, so profits will be repatriated to a foreign country rather than re-invested in Thailand.</td>
<td></td>
</tr>
</tbody>
</table>

Evaluation marks awarded for justified decision.

Further reading
Visit the Tescopoly website, which is dedicated to publicising the negative consequences of the growth of supermarkets in the UK. Tescopoly has been particularly critical of Tesco, the leading supermarket in the UK, and has modified Tesco’s long-standing slogan of ‘Every little helps’ to read ‘Every little hurts’.

A counterbalance is provided by Tesco’s own website which outlines their attitude toward corporate social responsibility.

For Tescopoly: http://www.tescopoly.org/
For Tesco follow this link and click on corporate responsibility for Tesco’s latest CR report: http://www.tescocorporate.com/plc/

Activity 14.7 (page 256): TI to peddle premium cycles for niche market

1 Explain why businesses such as TI produce and sell products in different market segments. [10]

Define market segment.
Reasons include:
• By selling bicycles in the ultra-premium cycle segment, it will take the TI brand upmarket and have a beneficial impact on the image of its other products.
Therefore, although it may be a niche market with only a very limited sales potential, it will lead to an increase in sales of their lower-priced bicycles.

- There is the prestige conferred on the TI brand of selling premium products.
- Product development for the premium market may, over time, lead to improvements in TI’s lower-priced products as technological innovation is transferred.
- Niche markets may be highly profitable due to the high margins that can be achieved.
- There may be opportunities for gaining scale economies, by targeting several market segments, as there will be shared components between products.

Activity 14.8 (page 259): ‘Understanding market segmentation key to repeat visits by tourists’

1 Why does successful market segmentation need to be supported by market research? Use this case as an example in your answer. [6]

Define market segmentation.
Without research, it would not be possible to accurately identify relevant ways of segmenting the market. Having identified a market segment, research is necessary to understand the needs of the consumers that make up the segment. Research will identify exactly what is wanted in the product and the promotional strategies that will appeal to the target segment. Thus, firms can alter the marketing focus according to the particular segment.

In the case study, market research has supported market segmentation by:
- identifying some six distinct groups of traveller to Hong Kong
- demonstrating how to encourage each market segment to make repeat visits to Hong Kong
- providing a focus for marketing activity, e.g. ‘bring a friend’ promotions for young, single leisure travellers
- identifying the size of each segment, e.g. mature repeat travellers were just 4.5% of the total sample. Tourist firms can thus identify which segments to focus on.

In this case, research can help identify whether mature repeat travellers are a segment worth marketing to.

2 Explain two of the ways that this research has segmented the total tourist market of Hong Kong. [6]

- Income – this includes business travellers with income above $50,000 or below $50,000.
- Benefit segmentation – this looks at the benefits visitors seek from travelling to Hong Kong. This has enabled researchers to identify, for example, that high-income business travellers will be more attracted by promotion based on the range of leisure and shopping facilities available.
- Age – this considers young (under 55) or mature visitors to Hong Kong.
- Ethnicity – this includes travellers visiting family in Hong Kong.
Discuss the possible benefits and limitations to a travel company in Hong Kong of using the information in this case to target different segments of the tourism market with different marketing activities. [12]

Benefits:
- The travel company can define its target market precisely.
- The travel company can tailor the marketing mix to meet the needs of different segments. This means adapting price, promotion, product and place for each segment.
- A more effective marketing mix can be employed to attract customers from the different segments. Marketing expenditure will, therefore, be more cost effective. In the case, several examples can be referred to:
  - Promotion for high-income business travellers could focus on leisure and shopping facilities.
  - Young, single travellers might be attracted by 'bring a friend' promotions.
- A small travel company would be able to specialise in one or two market segments. Thus, a firm may decide to focus on mature repeat travellers as this is a relatively small market and will thus be of less interest to bigger travel companies.
- Price discrimination can be used to increase revenue and profits. For example, it may be possible to charge a higher price to business travellers relative to leisure travellers.

Limitations:
- There will be high promotional costs associated with trying to appeal to different segments as there will be a need for differentiated advertising and promotions. As advertising is specific to different segments, the travel firm will miss out on marketing economies of scale.
- If a travel firm focuses on a particular segment, such as business travel, there could be problems if changes in the external environment cause that segment to change its spending patterns. For example, a recession might lead to a significant decline in business travel to Hong Kong.
- The segments are quite broad, e.g. travellers under 55. The benefit of segmentation will depend significantly on the extent to which members of a segment have similar consumption patterns and behaviour.

Evaluation may consider:
Evaluation will require comment on which are the most important benefits and whether the benefits outweigh the limitations. In this case, the size of the travel firm may be significant, e.g. a small firm may particularly benefit from identifying niche segments from the research.
Revision case study 1 (page 260): Furniture Metallica

1 At the start of his business Bill was focusing on industrial markets. Explain what this means. [4]

An industrial market is for goods and services which are to be used in the production process of other goods. Bill started his business by displaying his products at a business trade fair, focusing on selling furniture to offices and other businesses. Thus, he was not selling furniture to consumer markets.

2 As Bill started to widen his range of products and enter consumer markets, explain how he might have had to adapt his marketing to be successful. [8]

Marketing products to business requires a very different approach from marketing to consumers. Businesses are interested in their profits and will focus on potential benefits of a purchase. Bill may have focused on personal selling techniques, trade fairs and sending promotional literature to businesses directly. He may also have had to adapt products to meet specific business needs.

In consumer markets, Bill is more likely to use persuasive advertising techniques – consumers may be less interested in technical information. So glossy adverts in lifestyle magazines might be appropriate. It will also be more important for the products to look fashionable. Products must also be adapted to meet consumer needs. Bill considered producing coffee tables, student work units and work benches.

3 Explain the difference between the terms ‘market growth’ and ‘market share’. [4]

Market growth – this refers to the change in sales volume or sales value, over a specified period of time, within the market as a whole.

Market share – this identifies the percentage of total sales in the market sold by one business. It is calculated as:

\[
\text{market share} = \frac{\text{firm's sales in the time period} \div \text{total market sales in the time period}}{100}
\]

4 Use the data in the table referring to the Malaysian market, and the case study to:

• Calculate the total market sales of Furniture Metallica in Malaysia and the rest of Asia in 2009. [4]

Total market sales in Malaysia = $150m. Furniture Metallica has a market share of 20%. 20% of $150m is $30m (0.2 \times 150m).

As sales in the rest of Asia are 25% of total sales, then (let \(Y = \text{sales in Asia})):\n
\[
Y = 0.25(30 + Y) \\
Y = 0.25 \times 30 + 0.25Y \\
0.75Y = 7.5m \\
Y = 7.5m \div 0.75 \\
Y = 10m
\]
Therefore, total market sales = 30m + 10m = $40m

- Calculate the decline in the value of Furniture Metallica’s sales in the Malaysian market over the period 2005 to 2009. \[3\]

Sales in 2005 were: 29% of $200m = $58m (0.29 \times 200)

Sales in 2009 were: 20% of $150m = $30m

Therefore, the change in the value of sales is $30m – $58m = –$28m

Sales have declined by $28m.

This is equal to a decline of 48%.

5 Using your figures from question 4 and any other relevant data, evaluate the current market position of Furniture Metallica. \[10\]

The current market position of Furniture Metallica is very poor for the following reasons:

- In its home market, it has a declining share of a declining market. Its market share has fallen by 9 percentage points from 29% to 20%. As the market has shrunk by 25%, this means that Furniture Metallica’s sales value has fallen by $28m or 48%.
- Over the five-year period in question, sales have been falling at an average rate of $5.6m per year in Malaysia.
- With a drop of 5 percentage points between 2007 and 2009, the rate of decline has not slowed.
- Despite the success of sales in the rest of Asia, total sales are still $28m lower than in 2005.
- The decline in sales takes no account of inflation. In real terms, the fall in sales will have been even greater, assuming that prices in Malaysia have generally risen since 2005.
- Bill’s metal furniture designs have not changed over time. He has not adopted a sufficiently market-orientated approach. He has failed to adapt his business to changes in the market such as the use of plastics and other materials.

However, Furniture Metallica’s market position may get better:

- It has successfully entered the wider Asian market since 2005 and has already built up a sales value of $10m. Going from zero sales to $10m in under five years is a significant achievement, as Furniture Metallica would not have had an established brand name in the Asian market.
- Furniture Metallica has a strong reputation for quality office furniture and this could be used to build sales in the consumer market. Adapting designs may be relatively straightforward. There may be the potential for selling consumer furniture at above-average prices due to the quality of its products.
- The European market offers opportunity for expansion, as Furniture Metallica has a distinct cost advantage compared to European-manufactured furniture. However, establishing distribution channels in Europe may be difficult and/or expensive.
Evaluate the benefits and the costs associated with a decision by Bill to adopt market segmentation of the furniture market. [10]

Benefits:
- Furniture Metallica can identify the precise characteristics of market segments within the furniture market.
- Furniture Metallica can produce products to appeal to particular segments, e.g. rich corporate customers. If it wishes to enter the European market or expand further in the Asian market, it will need to understand the different product needs within the market. There is likely to be differing consumer needs according to geographical location. For example, the style of office and consumer furniture in different parts of Asia and Europe will not be the same; the case study refers to metal furniture not being fashionable in Europe.
- Furniture Metallica will be able to target promotional activity more effectively, e.g. advertising in high-class magazines for wealthy segments.
- Furniture Metallica can use the most effective distribution channels to reach each segment, e.g. exclusive furniture stores for high-income groups.
- Furniture Metallica can set prices which will reflect consumer expectations.

Costs:
- Market research is necessary to understand the different segments of the market. This may be expensive and require some primary research, although it is likely that market intelligence reports can be acquired at relatively low cost from organisations such as Mintel.
- There will be high promotional costs associated with trying to appeal to different segments, as there will be a need for differentiated advertising and promotions. As advertising is specific to different segments, Furniture Metallica will miss out on marketing economies of scale.
- If Furniture Metallica focuses on a particular segment, such as rich corporate customers, there could be problems if changes in the external environment cause that segment to change its spending patterns.

Evaluation may consider
Evaluation might focus on the need for Furniture Metallica to make significant change to its marketing mix. Given the weak performance of Furniture Metallica in the Malaysian market there appears to be a pressing need for the business to become more market orientated if it is to survive. Using market segmentation represents an effective way for Furniture Metallica to become more responsive to the needs of the market.

Essay
1 “There is no need for us to spend money on market research. We have clearly designed the best product on the market and consumers will be certain to buy.’ To what extent do you agree with this statement by the chairman of a TV manufacturing company? [25]

The answer must contrast the benefits of a production-orientated approach with a market-orientated one.
Arguments against the statement might include:

• Marketing is usefully defined as the management process of identifying, anticipating and meeting customer needs profitably. A product-orientated approach avoids this management process, as it does not place the consumer at the centre of business activity. The focus is the product, and marketing is used as a means of trying to sell the product that has been developed. If consumer needs are not understood, then it is possible that product development will not meet consumer needs. There are many examples of products that have failed as a consequence of not considering consumer needs. One of the most famous is that of Concorde: the supersonic jet was a technological triumph but a commercial failure.

• Market research will reduce the risk of new products failing. Given the significant costs involved in developing new products, such as plasma TVs and other new technologies, it may be considered too risky for a business to undertake research and development without first considering consumer needs. By identifying consumer needs, appropriate products are produced. These are likely to survive for longer and make higher profits. 3G phone technology was not driven by market research and firms have had to spend heavily on marketing to encourage consumers to take up the phones. Even now, although increasingly mobile phones are 3G, consumers do not use the full range of the phone technology.

• Being the best does not guarantee success. For example, Betamax video technology lost the battle to VHS, despite offering higher quality. More recently, Toshiba pulled out of the next-generation DVD battle when it stopped production of its HD-DVD at a cost of some $660 million to the business.

• Market research ensures that there is constant feedback from consumers and allows the product to adapt to changing consumer tastes.

Arguments for the statement include:

• By focusing on product research, high-quality products are developed. This will attract customers who value quality and technological advance above other factors.

• Dyson provides an example of a business that was successful through an innovative approach to product development rather than through careful market research.

• Market research does not guarantee success.

Evaluation may consider:
Evaluation may focus on the use of market research to reduce the risk of product development and to ensure that consumer needs are being met. Simply having the best-designed product on the market does not guarantee success.

Answer should contain a balance of points referred to above, in context of TVs, to gain evaluation marks.

Further research

The Times 100 Edition 13 has a very good case study on the role of market research in ensuring the successful development and launch of Nivea’s Pearl Beauty range: http://www.thetimes100.co.uk/