

Cambridge IGCSE · Business Studies 0450 · Notes

Marketing mix

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Read first: **Marketing, competition and the customer**, **Market research**

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What you need to know

By the end of this topic you should be able to:

1. **Name the four parts of the marketing mix:** product, price, place and promotion (the 4Ps), and explain why they must fit together and suit the target market.
2. **Product:** explain the benefits and limitations of developing new products; what brand image is and how it affects sales and customer loyalty; the jobs packaging does; the stages of the product life cycle and extension strategies, including drawing and reading a product life cycle diagram; and how the stage a product has reached changes decisions such as price and promotion.
3. **Price:** explain cost-plus, competitive, penetration, skimming and promotional pricing, with a benefit and a limitation of each; recommend a method for a given business and justify it; and explain the difference between price elastic and price inelastic demand and why it matters when setting a price. You will **not** be asked to calculate price elasticity or use its formula.
4. **Place:** explain the advantages and disadvantages of the channels of distribution (through wholesalers, through retailers, or direct to consumers), and recommend and justify a channel for a given business.
5. **Promotion:** explain the aims of promotion; the different forms of promotion (advertising and sales promotion) and how each raises sales; and why the promotion budget must be spent cost-effectively.
6. **Technology and the marketing mix:** define and explain e-commerce; the opportunities and threats it brings to businesses and to consumers; and how businesses use the internet and social media to promote their products.

Understand it

The marketing mix

The **marketing mix** is the set of decisions a business makes to sell a product to its target market. It has four parts, the **4Ps**:

- **Product:** what is sold, its design, quality, brand and packaging.
- **Price:** what customers pay, and the method used to decide it.
- **Place:** how the product reaches customers (the channel of distribution) and where it is sold.

- **Promotion:** how customers find out about the product and are persuaded to buy it.

The four parts must **fit each other and fit the target market**. A luxury watch with a high price, sold in a discount store and promoted with "buy one get one free" sends mixed messages, and customers stop trusting its quality.

Product: developing new products

Businesses develop new products to replace products whose sales are falling, to reach new customers and to keep ahead of competitors.

Benefits	Limitations
More sales and customers: a new product can attract buyers who did not want the old range, raising revenue	High cost: research and development, testing, new equipment and the launch all have to be paid for before any sales come in
Spreads risk: if sales of one product fall, sales of another can make up for it	Risk of failure: many new products never sell enough to cover their costs
Replaces products in decline , so the business is not left with nothing to sell	Takes time , during which cash flows out but none flows in
Gives an edge over competitors (a unique selling point), which can build brand loyalty	Needs market research first, and possibly extra or specially trained staff
Can improve the business's image as modern and inventive	A new product can take sales from the business's own existing products

Product: brand image

A **brand** is a name, logo or design that makes a product recognisable. **Brand image** is the picture of the product or business that customers have in their minds, the impression that sets it apart from rivals (for example, reliable, luxurious, cheap, eco-friendly).

A strong, positive brand image:

- builds **brand loyalty**: customers come back without comparing every rival, so sales are steadier;
- lets the business **charge a higher price**, because customers believe the brand is worth it;
- makes it **easier to launch new products** under the same name, since customers already trust it;
- brings **free word-of-mouth promotion**, so less needs to be spent on advertising.

Product: packaging

Packaging is more than a box. Its main jobs (roles) are to:

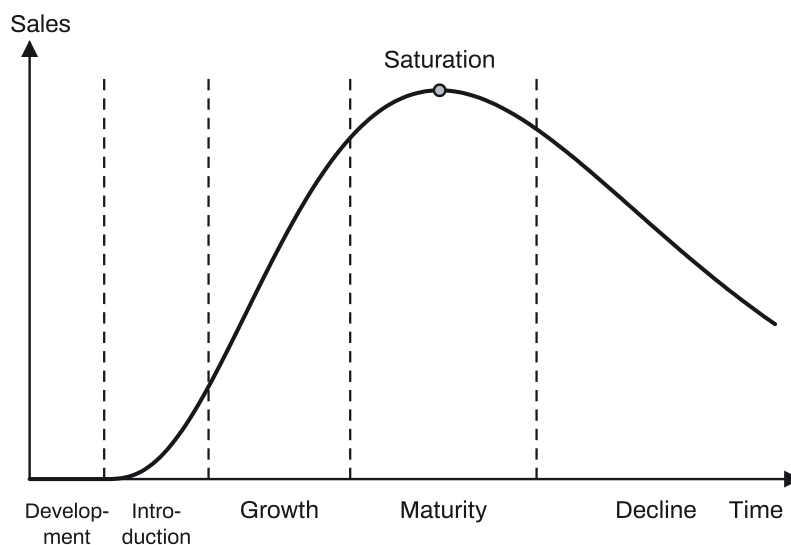
- **protect** the product from damage, dirt or going off, while it is moved, stored and sold;
- **make transport and storage easy**: a sensible size and shape that stacks well and wastes little space;

- **promote the brand:** colours, logo and design that customers recognise on a crowded shelf;
- **catch the eye** and attract buyers who were not looking for the product;
- **carry information:** ingredients, allergy warnings, how to use it, and anything the law requires;
- **be convenient** to open, use, reseal or carry.

When choosing packaging a business also weighs its **cost**, its image and its effect on the **environment**. Better packaging can **add value**, letting the business charge more.

Product: the product life cycle

The **product life cycle** shows how the sales of a product change from its launch to the day it is withdrawn.

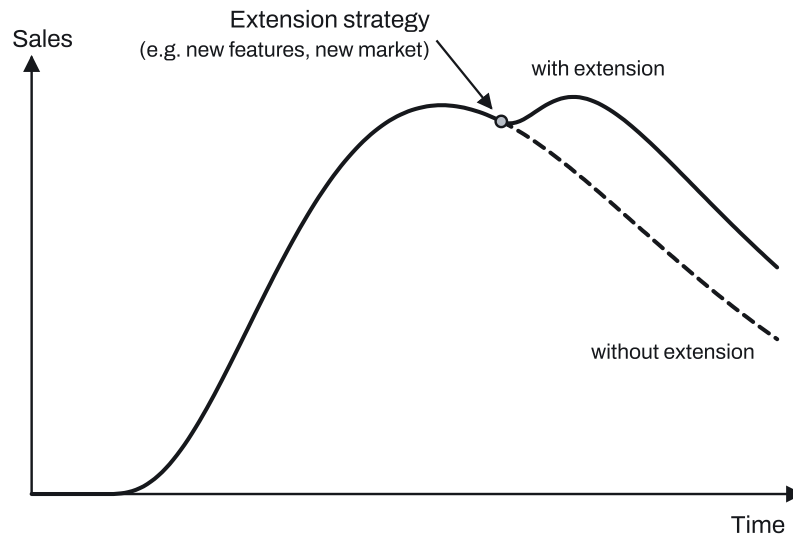


Stage	Sales	What is happening
Development	none	the product is designed and tested; costs but no revenue
Introduction	low, rising slowly	the product is launched; few people know about it; costs of the launch are high, so usually no profit yet
Growth	rising quickly	more people buy and recommend it; profit starts; competitors notice and enter the market
Maturity	high, levelling off	most people who want it have it; many competitors; the top of the curve is called saturation , which is a point within maturity, not a stage of its own
Decline	falling	tastes change or newer products replace it; the business may withdraw it

Extension strategies are actions taken in the maturity stage to stop sales from falling, so the product earns money for longer:

- add **new features** or improve the product;
- sell it in **new markets** (another country, a new group of customers) or through **new outlets**;
- a fresh **advertising campaign** or new **packaging** to renew interest;

- a **price cut** or special offers.



Each strategy costs money, and its effect usually wears off, so the business must judge whether the extra sales are worth it.

How the stage affects marketing decisions:

Stage	Promotion	Price
Introduction	heavy spending to make people aware of the product and explain what it does	skimming (high, if the product is new and different) or penetration (low, to win customers quickly)
Growth	build the brand and persuade people to choose it over newly arriving rivals	keep the price, or start to lower a skimming price as rivals arrive
Maturity	remind existing customers; spend to defend market share; extension strategies	competitive pricing, since rivals are many; promotional offers
Decline	cut spending to a minimum, or stop	lower prices to sell off the remaining stock

Price: pricing methods

Method	How the price is set	Benefits	Limitations
Cost-plus	the cost of making one unit plus a fixed percentage on top (the mark-up)	simple to work out; every item sold covers its cost and makes a profit; the business can choose a bigger mark-up on some products than on others	ignores what customers will pay and what rivals charge, so the price may be too high and sales are lost; a profit per item only becomes a profit overall if enough are sold; if costs rise, the price just rises with them, so managers have little reason to control costs

Method	How the price is set	Benefits	Limitations
Competitive	at or just below rivals' prices	fewer sales lost on price; easy where products are similar; avoids a price war	the price may not cover this business's costs if they are higher than rivals'; it has to find out rivals' prices; must compete in other ways, such as quality or service
Penetration	low at launch, below rivals, to win customers fast; raised later	attracts customers to try a new product; builds market share quickly	low profit per item at first; customers may resist when the price goes up; a low price can suggest low quality
Skimming	high at launch, for a product that is new or unique; lowered later	recovers the cost of developing the product quickly; gives an image of quality and status	only suits products with little competition; puts many buyers off; the high profits attract rivals into the market
Promotional	a price cut for a short time	attracts attention and new buyers; clears unsold or perishable stock; revives interest when sales fall	lower profit on each item during the offer; customers may wait for the next offer; frequent cuts can damage the brand image

Competitive pricing means a price **at or just below rivals' prices**; a price set well below rivals to win market share at launch is penetration pricing. Skimming is the **high** price; penetration is the **low** one.

Cost-plus in numbers. A candle maker's cost of making one candle is \$6 (materials \$4 and a share of other costs \$2). With a 50% mark-up the price is $6 + 6 \times 50\% = 9$ dollars.

What else affects the price a business sets: its costs, rivals' prices, how many substitutes there are, the brand image and quality it wants to show, its objectives (market share or profit), the target market's incomes, and price elasticity.

Choosing a method depends on the situation: penetration or competitive pricing for a **new business** in a crowded market; skimming for a **new, unique or high-status** product with few rivals; cost-plus or skimming for a **niche** market; competitive pricing for an **established** product with many rivals; promotional pricing for **old or perishable stock**.

Price: price elasticity of demand

Price elasticity of demand describes how much the quantity customers buy responds to a change in price.

- **Price elastic demand:** a price change causes a **bigger** percentage change in the quantity bought. Customers are sensitive to price.
- **Price inelastic demand:** a price change causes a **smaller** percentage change in the quantity bought. Customers keep buying.

Demand tends to be **inelastic** when the product has **few close substitutes** (it is unique or of a quality others cannot match), when it is seen as a **necessity**, when customers are **loyal to the brand**, or when it takes only a **small share of income**. Demand is **elastic** when there are many similar products to switch to.

Why it matters: a business selling a product with inelastic demand can **raise the price and earn more revenue**, because sales fall only a little. With elastic demand, a price rise loses so many sales that revenue falls, and a price **cut** is what raises revenue.

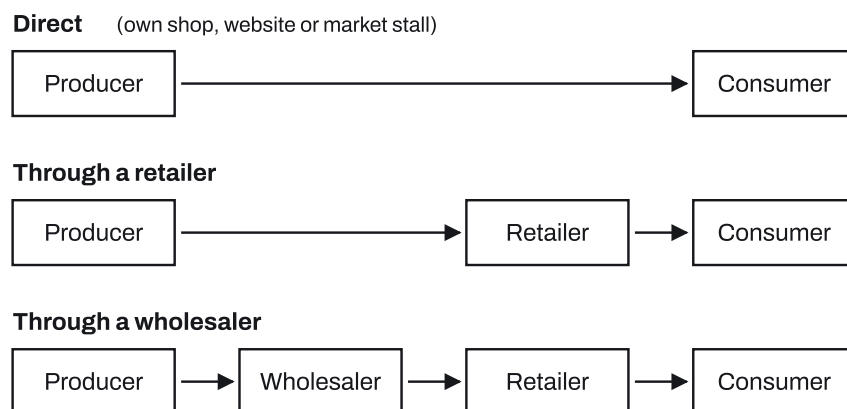
For example, a café sells 500 lunch boxes a week at \$20, so revenue is $500 \times 20 = 10\,000$ dollars. It raises the price by 10% to \$22.

- If demand is inelastic and sales fall to 480, revenue becomes $480 \times 22 = 10\,560$ dollars: **up**.
- If demand is elastic and sales fall to 400, revenue becomes $400 \times 22 = 8\,800$ dollars: **down**.

(You only need to explain this idea. You will not be asked to calculate an elasticity.)

Place: channels of distribution

A **channel of distribution** is the route a product takes from the producer to the consumer. Each business in between (an **intermediary**) adds its own profit to the price.



Channel	Advantages to the producer	Disadvantages to the producer
Direct to consumers (own shop, website, market stall, mail order)	keeps the whole profit margin, or can charge less than shops; full control of how the product is shown, priced and described; talks to customers directly, so gets feedback	pays for storage, delivery and selling itself; reaches fewer people than a chain of shops; running a shop or website costs money and time
Through retailers	retailers buy in larger amounts; they hold stock and pay to display it; they may advertise it; customers can see and try the product; reaches customers in many places	retailer takes a share of the profit, so the producer gets less or the price is higher; less control over display and promotion; rivals' products sit on the same shelf; no direct contact with the final customer

Channel	Advantages to the producer	Disadvantages to the producer
Through a wholesaler (to retailers)	the wholesaler buys in bulk, so fewer, larger deliveries; it stores the goods and splits them into small lots for many small shops; reaches a wide area cheaply	two sets of profit margins are added, so the final price is higher or the producer's share is smaller; very little control over how the product is sold; slower, so not ideal for perishable goods

A business can also use an **agent** (who knows a foreign market and finds buyers for a fee) or **e-commerce**, which is a direct channel.

What decides the best channel: the **product** (perishable or bulky goods need short channels; goods needing advice suit specialist retailers), the **size of the business** (a small producer may lack money for delivery and stock, so a wholesaler helps), **where the customers are**, the **image** wanted (a luxury brand keeps control) and **cash flow** (direct sales are paid at once; retailers may want time to pay).

Promotion

Aims of promotion: to make people **aware** of a product (especially a new one), to **inform** them what it does, to **persuade** them to buy it instead of a rival's, to **remind** existing customers, to build the **brand image** and **customer loyalty**, and in the end to **raise sales**.

Advertising is paid-for communication through a medium: television (huge audience and moving pictures, but very expensive), radio (cheaper, regional), magazines (specialist ones reach a precise group), billboards and posters (seen repeatedly, short message), leaflets (cheap but often thrown away) and the internet (see below).

Sales promotion is a short-term incentive to buy now:

- **price discounts** or money-off coupons;
- **buy one get one free** (BOGOF) and other multibuy;
- **free samples** so people can try the product;
- **free gifts** with a purchase, **competitions**;
- **point-of-sale displays** and demonstrations in the shop;
- **loyalty schemes** that reward repeat buyers;
- **after-sales service**, such as free repairs.

Sales promotion raises sales quickly, but the effect usually ends when the offer ends, and discounts cut the profit on each item. **Sponsorship** (paying to have the brand on a team or event) builds the brand over time.

Advertising and sales promotion are different: a free sample or a competition is **sales promotion**, not advertising.

Cost-effectiveness. A business sets a **marketing budget**, the amount of money it plans to spend on marketing over a period. Because the budget is limited, each method should be judged by what it achieves **for its cost**: how many of the **target** customers it reaches, and how many extra sales it brings. A TV advert seen

by millions is wasteful for a small café whose customers all live nearby; a local leaflet or a targeted social media advert may bring more customers per dollar. A large business with a national market can more easily afford, and benefit from, expensive media.

Technology: e-commerce

E-commerce is buying and selling goods and services over the internet, on a website or an app.

	Opportunities	Threats
For businesses	reach a much wider, even worldwide, market; open 24 hours a day; may not need a shop, saving rent and staff; collect data on what customers buy; prices and products can be changed quickly	many more competitors, and customers compare prices in seconds, so prices may have to fall; cost of building, updating and securing a website; delivery and packaging costs; returns of unwanted goods; hacking, fraud and technical failures that lose sales and damage reputation; no face-to-face contact, so harder to build loyalty
For consumers	wider choice; shop any time, from home; easy to compare prices and read reviews; often lower prices	cannot see, touch or try the product first; delivery costs and waiting time; risk of fraud or stolen card details; returning goods is a nuisance; no personal advice

Technology: internet and social media promotion

Businesses promote themselves with their own **website**, with **social media** posts and paid adverts, through **influencers**, and with **emails** to existing customers.

Benefits:

- **low cost**, or free for the business's own posts;
- adverts can be **targeted** at exactly the groups who might buy (by age, interest, place);
- people **pass posts on** to others they know, so the message spreads without extra cost (word of mouth);
- messages can be **changed quickly**, for example to push a new offer;
- **interactive**: customers can comment, ask questions and give feedback;
- a link can take the customer **straight to a page where they can buy**.

Limitations: some groups (often older customers) use social media less; **negative comments** spread just as fast as positive ones; pages need **constant updating**, which takes staff time; there are so many adverts that one can be lost among rivals'; emails may be treated as spam.

Key facts and formulas

This topic has no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
Marketing mix: the 4Ps, product, price, place and promotion	Learn it
Brand image: the impression or identity customers have of a product or business that sets it apart from rivals	Learn it
Product life cycle stages: development, introduction, growth, maturity, decline (saturation is a point in maturity)	Learn it
Extension strategies: new features, new markets or outlets, new advertising or packaging, price cuts	Learn it
Cost-plus price = cost per unit + cost per unit $\times$ mark-up %	Learn it
Competitive pricing: set at or just below rivals' prices	Learn it
Penetration pricing: a low price at launch to win customers and market share, raised later	Learn it
Price skimming: a high price at launch for a new or unique product, lowered later	Learn it
Promotional pricing: a price cut for a short period	Learn it
Price elastic demand: quantity bought changes by a bigger percentage than price; price inelastic: by a smaller percentage	Learn it
Revenue = price $\times$ quantity sold	Learn it
Channels: producer $\rightarrow$ consumer; producer $\rightarrow$ retailer $\rightarrow$ consumer; producer $\rightarrow$ wholesaler $\rightarrow$ retailer $\rightarrow$ consumer	Learn it
Marketing budget: the money a business plans to spend on marketing over a period	Learn it
Cost per new customer = cost of the promotion $\div$ number of new customers it brings	Learn it
E-commerce: buying and selling goods and services over the internet	Learn it

How to do it

We have tagged 69 questions on this topic (2021–2026), on Paper 1 and Paper 2. 20 of them have parts of more than one type, so the counts add to 94.

Question type	Questions
Evaluate or recommend a distribution channel	14
Explain, compare or recommend a pricing method	13
Evaluate or choose methods of promotion	12
Opportunities and threats of e-commerce	10
Roles of packaging	8
Benefits and limitations of developing new products	7
Internet and social media promotion	6
The marketing mix as a whole	6
How the product life cycle stage affects marketing decisions	5
Define or name pricing methods	4
Brand image	4
Aims of promotion	2
Extension strategies	2
Why demand is price inelastic	1

The mark scheme codes are **k** (knowledge: a correct point), **app** (application: a detail from the case), **an** (analysis: a developed consequence) and **eval** (evaluation: a justified judgement).

Part	Marks	What earns them
Paper 1 "Define"	2	a full definition; half = 1
Paper 1 "Identify" or "State"	1	short points; only the first ones asked for are marked each
Paper 1 "Outline"	4	each: k + app; no marks for analysis
Paper 1 "Explain" (d)	6	each: k + app + an
Paper 1 (e) "Do you think ...?" or "Which is best?"	6	2 k + 2 an + 2 eval; general, so no app
Paper 2 (a) "Explain four ..." or "two ... and two ..."	8	each point (1) + one explanation (1); in context when the question names the business
Paper 2 (b) "Consider ... Which ...? Justify"	12	levels: applied discussion of every option, then a choice that says why the others were rejected

1. Evaluate or recommend a distribution channel (14 questions)

1. **Name the channel** and give its advantages and disadvantages to the **producer** (table in "Understand it").

2. **Develop each point** (an): the effect on costs, price, sales, profit margin, control over the brand or cash flow.
3. **Evaluate** by comparing the channel in the question with an alternative, for the business named (start-up, manufacturer, large business).
4. On Paper 2, use the case: the product (perishable, bulky, luxury), the business's size and money, where its customers are, the appendix figures.

Variations you will meet:

- **Paper 1 (e), is one channel the best?** Retailers for a manufacturer ([0450/12/F/M/26 Q1](#), [0450/12/M/J/23 Q3](#)); selling direct to retailers for a manufacturer ([0450/13/O/N/23 Q3](#)); a wholesaler for a start-up ([0450/12/O/N/23 Q1](#)); wholesalers for a large business ([0450/11/O/N/21 Q3](#)). Only the channel and type of business change; discuss the named channel **and** one alternative, then decide.
- **In context:** outline two advantages of retailers ([0450/12/O/N/21 Q2](#)); explain an advantage and a disadvantage of retailers ([0450/11/M/J/24 Q4](#)); explain two advantages of a farm selling direct to a manufacturer ([0450/12/M/J/21 Q4](#)).
- **Paper 2 (b), named options:** own shop, online or wholesaler ([0450/22/F/M/25 Q3](#)); specialist retailers or own website ([0450/21/O/N/25 Q2](#)); own website or large retailers abroad ([0450/22/O/N/23 Q2](#)); shop at the dairy, supermarkets or wholesaler ([0450/23/O/N/22 Q2](#)); wholesaler, retailer or direct ([0450/21/M/J/21 Q3](#)). One is from a retailer's side: buy stock from a wholesaler or the manufacturer ([0450/22/M/J/21 Q2](#)).
- Direct selling includes the producer's own shops, website and delivery; customers don't have to collect from the factory.

2. Explain, compare or recommend a pricing method (13 questions)

1. **Name the method** (k): "a high price" or "a low price" earns nothing.
2. **Develop** (an) with a benefit or limitation from the pricing table.
3. **Fit it to the situation:** new or established, unique or ordinary, niche or mass market, many or few rivals.
4. For a judgement, **compare with another named method**.

Variations you will meet:

- **One method in context:** cost-plus, two advantages and two disadvantages ([0450/22/F/M/26 Q2](#), part (a)), where each point needs one explanation tied to the business; skimming, outline one of each ([0450/11/M/J/24 Q4](#), part (c)).
- **Paper 1 (e), is one method best?** Skimming for a new product ([0450/12/F/M/25 Q2](#)); competitive for an established business ([0450/12/M/J/22 Q1](#)), where launch methods are poor alternatives; cost-plus for a new niche business ([0450/11/M/J/21 Q4](#)); penetration against cost-plus for a new business ([0450/13/O/N/21 Q3](#)). Two methods and the best for a new business ([0450/11/M/J/25 Q1](#)).
- **Paper 2 (b), three named methods:** cost-plus, penetration or skimming ([0450/23/O/N/23 Q2](#), [0450/22/O/N/21 Q3](#)); cost-plus, promotional or competitive ([0450/21/O/N/24 Q4](#)); cut the price or improve the product and raise the price, using revenue figures ([0450/22/F/M/22 Q3](#)): work out price × quantity for each.

- **Factors when setting a price** (0450/13/M/J/25 Q1, part (c)): costs, rivals' prices, substitutes, target market, image; not pricing methods.
- **Problems of low prices** (0450/13/M/J/21 Q1, part (d)): seen as poor quality, low profit per item, hard to raise later.

3. Evaluate or choose methods of promotion (12 questions)

1. **Name the specific method** (k): a medium (TV, magazines, billboards, leaflets, social media) or a sales promotion (free samples, BOGOF, discounts, point-of-sale displays).
2. **Develop** (an): who it reaches, how it persuades, what it costs, how long it lasts.
3. **Judge cost-effectiveness** for the size of business named.

Variations you will meet:

- **Paper 1 (e)**: two methods, best for a large business (0450/11/O/N/25 Q4); two **sales promotion** methods for a new product (0450/13/M/J/25 Q1), where adverts on TV or social media earn nothing; free samples for a new food (0450/11/O/N/21 Q1); specialist magazines for high-quality products (0450/12/O/N/22 Q2).
- **Paper 2 (b), named options**: leaflets, billboards or a first-purchase discount (0450/21/M/J/25 Q3); a discount or free delivery (0450/23/M/J/24 Q1); magazines, leaflets or point-of-sale displays (0450/22/M/J/24 Q2); TV, billboards or sponsorship abroad (0450/23/M/J/23 Q1).
- **Shorter parts**: two sales promotions for a new shop (0450/12/F/M/24 Q4); two ways to raise sales of a best-seller, any part of the mix (0450/12/F/M/25 Q2, part (c)); four ways to **advertise** (0450/21/M/J/22 Q3); define "marketing budget" (0450/11/M/J/22 Q1, part (b)): money **planned** for marketing over a period.

4. Opportunities and threats of e-commerce (10 questions)

1. **Check whose point of view**: the business's or consumers'.
2. **Name** the opportunity or threat (k) and **develop** it (an) into sales, costs, prices or reputation. Say which cost, not just "expensive".
3. For a judgement, weigh one side against the other for the business named.

Variations you will meet:

- **Short parts**: two opportunities for a start-up (0450/13/O/N/25 Q2, part (c)); two threats for a shop not yet online (0450/11/M/J/22 Q1) or a start-up (0450/13/O/N/22 Q4); one opportunity and one threat (0450/23/M/J/23 Q4); two opportunities **for consumers** (0450/12/F/M/21 Q1).
- **Paper 1 (e)**: opportunities greater than threats for a new business (0450/11/O/N/24 Q2), or threats greater (0450/12/F/M/22 Q2), giving at least one of each; explain two threats and decide which is most important (0450/12/O/N/25 Q2).
- **Paper 2 (b)**: which has the greatest effect (0450/21/O/N/22 Q1, 0450/22/M/J/24 Q3).

5. Roles of packaging (8 questions)

1. **Name the role** (k): protect, transport and storage, promote the brand, eye-catching, information, convenience.
2. **Develop** (an): what goes wrong without it, or what it gains.

Variations you will meet:

- **Identify two roles** (0450/13/M/J/25 Q1, part (a)); **explain four** (0450/23/O/N/24 Q3 general; 0450/22/O/N/22 Q2, part (a), in context): use four different roles, each with its own consequence.
- **Outline two reasons packaging matters** (0450/12/O/N/23 Q1, part (c)) or **two factors when choosing it** (0450/13/M/J/22 Q1, part (c): cost, protection, environment, image).
- **Judge a role:** is promoting the brand most important (0450/11/M/J/23 Q4); rank protect, promote, inform for a fragile, perishable product (0450/21/O/N/24 Q1).
- **Change the packaging to add value** (0450/11/O/N/21 Q1, part (d)).

6. Benefits and limitations of developing new products (7 questions)

Point (k), develop (an) into revenue, risk, costs or cash flow, and apply (app) if a business is named. "It costs money" repeats the question: name the cost.

- Identify one benefit and one limitation (0450/13/O/N/23 Q3, part (b)) or cost (0450/12/M/J/22 Q3, part (a)); outline one of each (0450/11/M/J/21 Q2); explain one cost and one benefit (0450/22/O/N/21 Q3, part (a)); two of each (8 marks, 0450/21/O/N/23 Q2).
- Paper 1 (e): benefits greater than limitations (0450/12/M/J/25 Q1); wide or small product range for a large business (0450/13/O/N/21 Q4).

7. Internet and social media promotion (6 questions)

Name the benefit (k): low cost, targeting, sharing, quick updates, interaction, links to buying; develop (an) and say how it **promotes** the business.

- Explain four benefits (0450/23/O/N/25 Q3) or two advantages in context (0450/12/M/J/24 Q2).
- Paper 1 (e): best for a small business (0450/11/O/N/23 Q2) or a new product (0450/13/M/J/22 Q1); compare with another method.
- Paper 2 (b): social media, emails to existing customers, or setting up (0450/21/M/J/24 Q2) or improving (0450/22/F/M/22 Q1) a website. Emails keep existing customers but may be spam.

8. The marketing mix as a whole (6 questions)

- Define "marketing mix" (0450/12/M/J/21 Q1, part (b)) or state two elements (0450/11/O/N/22 Q3). It is not market research.
- Paper 1 (e): two elements and the most important (0450/13/O/N/24 Q3); promotion or product for a new business (0450/13/M/J/21 Q1). Either side can win if justified.

- Paper 2 (b): rank three given elements (0450/22/O/N/25 Q2), or judge whether a given mix suits the product as a whole (0450/22/F/M/24 Q2). Check each element against the target market and the others.

9. How the product life cycle stage affects marketing decisions (5 questions)

Name the stage (k), never "start", "peak" or "end"; say what it means for the decision asked (promotion **or** price) and why (an); apply it.

- Identify two stages (0450/13/M/J/25 Q1, part (b)); promotion in two stages (0450/13/O/N/23 Q3, part (d), 0450/12/M/J/22 Q3, part (d)); pricing in two stages (0450/11/M/J/23 Q4, part (d)).
- Paper 2 (b): which brand to drop using sales data (0450/22/O/N/22 Q2, part (b)): name each brand's stage from the trend.

10. Define or name pricing methods (4 questions)

- Define cost-plus (0450/12/M/J/21 Q1, part (a)): cost per unit **plus a percentage for profit**.
- Define competitive pricing (0450/11/M/J/22 Q1, part (a)): a price at or just below rivals' prices.
- Identify two methods (0450/12/F/M/21 Q2, part (b)) or outline two in context (0450/12/O/N/25 Q3, part (c)).

11. Brand image (4 questions)

- Define it (0450/11/O/N/25 Q4, 0450/13/O/N/23 Q3, part (a)): the impression customers have of a product or business that sets it apart from rivals.
- Outline two benefits (0450/11/O/N/23 Q2, part (c), 0450/13/O/N/22 Q4, part (c)): loyalty, higher price, easier launches, less advertising; a different case detail each.

12. Aims of promotion (2 questions)

- Identify two aims (0450/12/M/J/25 Q1, part (b)).
- Paper 2 (b): new customers or brand loyalty for a café (0450/22/F/M/26 Q2, part (b)). Explain **why** each aim helps the business, not how to achieve it.

13. Extension strategies (2 questions)

- Paper 1 (e): is adding new features best (0450/11/O/N/22 Q1)? Develop it and one other strategy, then decide.
- Paper 2 (b): new features, toy shops or a TV campaign (0450/22/O/N/24 Q2): for each, the sales gained, the cost and how long it lasts.

14. Why demand is price inelastic (1 question)

Explain two reasons in context (0450/12/O/N/22 Q2, part (d)): few close substitutes, brand loyalty or a necessity; then a price rise causes a **smaller percentage fall** in sales, so revenue rises. Reasons for charging a high price answer a different question.

Worked examples

Example 1

Lumo is a small business that makes water bottles with a built-in filter. It launched the bottles three years ago at \$45 each and sells them only through its own website. Sales have now stopped growing because rival firms have launched similar bottles.

(a) Define "price skimming". [2]

(b) Outline two extension strategies Lumo could use for its filter bottle. [4]

(a) Setting a high price when a new or unique product is launched (1), then lowering it later as competitors arrive (1).

(b) Add new features (k), such as a filter that also removes the taste of the chlorine in tap water, so the bottle stands out from the similar rival bottles (app).

Sell in new outlets (k): Lumo sells only on its website, so it could sell through outdoor-sports shops where people who have never visited its website can see the bottle (app).

Part (a) needs both ideas for 2 marks; part (b) is k + app for each strategy, with a different case detail each time.

Example 2

Tide & Tread is a surf school on a beach popular with young people. It has a promotion budget of \$1200 for the summer and is choosing between two options:

- **Option A:** adverts on local radio costing \$900, expected to bring 30 new customers;
- **Option B:** social media adverts shown to people aged 16–30 living within 50 km, costing \$360, expected to bring 18 new customers.

(a) Calculate the promotion cost per new customer for each option. [2]

(b) Explain two reasons why Tide & Tread might choose Option B even though it is expected to bring fewer customers. [6]

(a) Option A: $900 \div 30 = 30$ dollars. Option B: $360 \div 18 = 20$ dollars. (1) for the method, (1) for both answers.

(b) It is more cost-effective (k): each new customer costs \$20 instead of \$30 (app), so after spending \$360 the school still has \$840 of its \$1200 budget left for other promotion later in the summer (an).

It reaches the target market more precisely (k): the adverts are shown only to 16–30-year-olds nearby, the age group most likely to try surfing (app), so less of the money is wasted on people who would never book a lesson, unlike radio, which reaches every age (an).

Each reason earns k + app + an (3 + 3 = 6). Another good reason is that followers can pass the posts on, which costs the school nothing.

Example 3

Do you think a business that sells a product with price inelastic demand should raise its price? Justify your answer. **[6]**

One reason to raise it is higher revenue (k): with inelastic demand the quantity bought falls by a smaller percentage than the price rises, so the business earns more from each sale while losing only a few, and revenue rises (an).

A reason against is the reaction of customers and competitors (k): if the price rises too far, buyers may start looking for substitutes, and rivals who keep their prices lower can win them over, so in the long run sales could fall sharply (an).

The business should raise its price only by a small amount. Demand is inelastic because customers see few alternatives, so a small rise is unlikely to drive them away and the extra revenue can be spent on keeping quality high, which keeps demand inelastic (eval). A large rise is riskier, because it gives competitors the reason they need to launch a cheaper substitute, and then demand would become elastic and the business would lose more revenue than it gained (eval).

The question is general, so there are no application marks: 2 k + 2 an + 2 eval.

Example 4

Ember Roasters is a small business that roasts coffee beans and sells them in 250 g bags at \$12 from its own café. Each bag costs \$5 to produce. Ember can roast up to 3500 bags a month and the café sells 1000. The owner wants to sell a new range of single-farm coffees and is considering three channels:

- **Its own website**, selling at \$12 a bag with free delivery; delivery costs Ember \$3 a bag and building the website costs \$2500. It expects to sell 400 bags a month at first.
- **A supermarket chain**, which would pay \$7.20 a bag for 3000 bags a month, and pays its suppliers 60 days after delivery.
- **A stall at weekend farmers' markets**, selling at \$12 a bag. The stall costs \$80 a weekend and it expects to sell 120 bags a weekend.

Consider the advantages and disadvantages of each channel. Which should Ember choose? Justify your answer. **[12]**

Website. After delivery, Ember keeps $12 - 3 - 5 = 4$ dollars a bag, so 400 bags give $400 \times 4 = 1600$ dollars a month, and the \$2500 website is paid for in under two months. Ember controls how its coffee is described, gets direct feedback and can sell nationwide. But 400 bags is only an estimate, online rivals are many, and the website needs constant updating.

Supermarket. It brings the most bags and puts the brand in front of thousands of shoppers. But Ember keeps only $7.20 - 5 = 2.20$ dollars a bag, and it has room for only $3500 - 1000 = 2500$ more bags a month, so it could not supply the full 3000 without new equipment. Waiting 60 days for payment would strain cash flow, and the coffee would sit beside cheaper rivals with no one to explain its higher price.

Farmers' market stall. The stall costs $80 \div 120 = 0.67$ dollars a bag (to the nearest cent), so Ember keeps $12 - 5 - 0.67 = 6.33$ dollars a bag, the most of the three. Shoppers can taste the coffee and meet the roaster. But that is only about 480 bags a month, weather-dependent, and it takes the owner's weekends.

Recommendation. Ember should sell through its own website. It earns \$4 a bag, nearly twice the supermarket's \$2.20, keeps control of a premium brand, and can grow beyond the local area. The supermarket is rejected because Ember cannot produce 3000 extra bags with its spare capacity of 2500, and its low price and 60-day wait for payment would squeeze both profit and cash. The market stall makes the most per bag but is rejected as the main channel because 480 bags a month is too small and ties up the owner every weekend; it could still be used now and then for tastings.

Each channel is discussed in context, using the case's figures, and the recommendation says why both alternatives were rejected: **Level 3** (9–12 marks). Another choice can also reach Level 3 if justified from the case.

Common mistakes

- **Mixing up skimming and penetration.** Skimming is a **high** launch price; penetration is a **low** one. Examiners report this confusion in most years.
- **Thinking competitive pricing means any low price**, or that it automatically attracts customers. It means a price at or just below rivals' prices; a price well below rivals to win market share at launch is penetration pricing.
- **Defining cost-plus as "a price based on cost"** or "a price higher than cost". Say it is the cost per unit **plus a percentage for profit**.
- **Saying cost-plus guarantees a profit for the business.** It gives a profit on **each item**; the business only makes a profit overall if it sells enough to cover all its costs.
- **Calling competitions or free samples "advertising"**, or giving adverts when the question asks for **sales promotion**. Promotional pricing is a pricing method, not a competition.
- **Muddling the product life cycle with the business cycle.** Boom, slump, peak and trough belong to the economy; the product stages are introduction, growth, maturity and decline. **Saturation** is a point within maturity, not a separate stage.

- **Answering from the wrong point of view.** Benefits of e-commerce to consumers when the question asks about the business, or benefits to the business when it asks about consumers; benefits of new products to customers instead of to the firm.
- **Describing benefits when threats are asked** (e-commerce), or vague statements like "it is expensive" without saying which cost.
- **Listing more knowledge instead of developing points**, and ending a judgement with a summary. Each point needs a consequence ("so..."), and the decision needs a reason why it beats the alternative.

How to get the marks

- **Define:** one sentence with every key idea (for skimming, "high at launch" **and** "lowered later"). Don't repeat the words you are defining.
- **Paper 1 (e)** (6 marks): general, so no marks for the case. Name methods, channels or elements exactly. Give two developed points covering both sides, or the named option and an alternative; then a decision for the situation named (a new business, a manufacturer, a large business) that says why it beats the other side.
- **Paper 2 (b)** (12 marks): discuss **every** option using the case and its numbers (cost per bag, budget, capacity, target market), then recommend one and say **why each other option was rejected**. Any choice can reach the top level if the reasons come from the case.
- **Diagrams:** label axes (sales, time), draw one smooth curve and name every stage.
- **Calculations:** show the working (price × quantity, cost ÷ customers) and give units; a correct method earns a mark even if the answer slips.

Quick check

1. Name the pricing method in each case. (a) A games console is launched at \$600, and the price is cut a year later. (b) A new streaming service charges far less than established rivals to win subscribers quickly. (c) A bakery adds 40% to its cost of \$2.50 per loaf. What price does it charge? (d) A petrol station charges the same as the station across the road. (e) A shop sells winter coats at half price for one weekend to clear stock.
2. Name the product life cycle stage. (a) Sales are high but no longer rising, and there are many competitors. (b) Sales are rising fast and rival firms are launching copies. (c) The product has just been launched and few people know about it. (d) Sales are falling as customers switch to a newer product.
3. Which channel of distribution would you suggest for each, and why? (a) A farm selling fresh eggs to people in its village. (b) A small sweet factory that wants its sweets in hundreds of small corner shops across the country.
4. Define e-commerce, and give one opportunity and one threat of e-commerce for consumers.
5. A business sells 2000 phone cases a month at \$10. It raises the price to \$11 and sales fall to 1900. Calculate its revenue before and after. Is demand price elastic or price inelastic?

Answers

1. (a) Skimming. (b) Penetration. (c) Cost-plus: $2.50 + 2.50 \times 40\% = 3.50$ dollars. (d) Competitive. (e) Promotional.
2. (a) Maturity. (b) Growth. (c) Introduction. (d) Decline.
3. (a) Direct: the eggs stay fresh, the farm keeps the whole price, and its customers live nearby. (b) Through a wholesaler: one bulk order reaches hundreds of small shops, which the factory could not afford to deliver to one by one.
4. Buying and selling goods and services over the internet. Opportunity: wider choice, or easy price comparison, or shopping at any time from home. Threat: cannot see or try the product first, or delivery costs and waiting, or the risk of fraud.
5. Before: $2000 \times 10 = 20\,000$ dollars. After: $1900 \times 11 = 20\,900$ dollars. Revenue rose although price went up, so sales fell by a smaller percentage (5%) than the price rose (10%): demand is price inelastic.

Past questions to try

- **0450/21/O/N/24 Q4**: part (b), cost-plus, promotional or competitive pricing for a bakery's existing products.
- **0450/22/F/M/25 Q3**: part (b), own shop, online or a wholesaler for a rug maker.
- **0450/13/O/N/23 Q3**: parts (a), (b), (d) and (e), brand image, new products, life cycle and promotion, and selling direct to retailers.
- **0450/22/O/N/22 Q2**: parts (a) and (b), four roles of packaging, and which brand to drop using life cycle data.