

Volume 32, Number 2, November 2025

Practice exam questions

AI and marketing

Mark Hage

Check your answer to the question on pp. 18–19 of the magazine. This question relates to the AQA specification.

Sample answer

Profitability, which is the ability of a business to make a profit relative to its revenue, is a key objective for any firm. The use of artificial intelligence (AI) in marketing involves using technology and big data to improve decision-making. This can have a major impact on a business' ability to increase its profits by both boosting revenue and cutting costs. However, whether this actually happens depends on how well the AI is used and if the business can manage the risks involved.

One way AI can significantly increase profitability is by helping a business to maximise its revenue through more effective pricing. The article states that AI can enable 'first-degree price discrimination', which it calls 'the ultimate way to maximise sales revenue'. This is a strategy where a business uses data on a customer's income and spending habits to charge them the highest price they are willing to pay. For example, the article suggests AI could figure out that one customer would pay £54,999 for a BMW while another would only pay £39,999, and then charge them accordingly. By tailoring the price to each individual, the business can make much more revenue from the same number of sales. This extra revenue should lead directly to a higher operating profit, boosting overall profitability.

Secondly, AI can help a business become more profitable by making its promotion more targeted and efficient, which should lead to a higher sales volume. The article states that AI gives businesses a 'granular understanding' of customers. Instead of just using basic segmentation like age or gender, AI can analyse huge amounts of data from sites like Google and Facebook to find the perfect customer profile. For example, it can identify new parents who are 'natural targets for upmarket baby brands such as JoJo Maman Bébé'. This means that marketing spending is more effective because adverts are shown to people who are genuinely likely to buy. The M&S 'AI Wine Finder' is another good example, where AI blends the 'product' and 'promotion' parts of the marketing mix to give customers a personalised service in store, which likely increases sales. By making marketing more effective and increasing sales volume, total revenue goes up, which in turn increases profitability.

On the other hand, AI can also increase profit by reducing a business' costs. The article suggests that if firms use their own AI tools, they will have 'far less need for an advertising agency's expertise', which could cut a major marketing expense. AI can also make a business more operationally efficient by automating tasks like creating a full advertising campaign from one idea. Furthermore, AI can improve sales forecasting, as done in the Magnum ice cream example. Better forecasts mean more sensible decisions on marketing budgets and better stock control, which reduces waste and

unnecessary costs. By lowering these costs, a business can increase its profit margin on each sale, making it more profitable overall.

However, using AI in marketing comes with significant risks that could limit its ability to increase profitability. The main issue is around privacy and ethics, which can seriously damage a brand's reputation and lead to lower revenue. The article uses the example of Asda being criticised for using facial recognition to track shoppers without their permission. This kind of negative publicity can destroy customer trust and loyalty. In a competitive market, customers who feel their privacy has been invaded might switch to a rival, causing a long-term fall in market share and sales. This could easily wipe out any financial gains made from the data. Therefore, an AI strategy can backfire and harm profitability if it is seen as unethical, showing that short-term gains from data do not always lead to long-term success.

In conclusion, the extent to which AI can increase a business' profitability is very high, but it is not guaranteed. For a business with access to lots of data, AI offers powerful ways to increase revenue through dynamic pricing and better targeting, while also cutting costs through automation. The potential to maximise revenue using price discrimination is especially strong. However, success depends entirely on how the strategy is implemented. A business like M&S, which uses AI to improve the customer experience, is likely to see its profits grow. In contrast, a firm that crosses an ethical line, like the Asda example, risks damaging its brand image, which would harm profitability in the long run. Furthermore, the article suggests that AI could be a 'democratising force', making it easier for smaller firms to compete. This could lead to more intense competition in the market, which might actually reduce profit margins for everyone. Ultimately, while AI will be a key tool for profitable marketing, its success will be determined by whether a business can use it responsibly and manage the significant strategic risks.

Sample examiner comment

25/25 (Level 4 – an excellent response, fully focused on the question)

A depth and range of knowledge and understanding are shown of the use of AI to increase profitability. Application is applied effectively throughout the answer and analysis is well developed throughout, considering a balanced range of issues appropriate to answering the question.

The answer makes judgments as to the importance of AI in increasing profitability. The answer shows a balance of competing arguments and a clear focus on answering the question throughout.

This resource is part of BUSINESS REVIEW, a magazine written for A-level students by subject experts. To subscribe to the full magazine, go to www.hachettelearning.com/businessreview