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Practice exam questions

The global eyewear market

Mark Hage

Check your answer to the question on pp. 26–27 of the magazine. This question relates to the AQA specification.

Sample answer

One of the most significant reasons why market dominance is important is the ability to command premium pricing. A business that controls its market, like EssilorLuxottica (EL), can become a price maker, setting prices to maximise revenue without fear of being undercut. This is evident in the eyewear market, where designer glasses can cost hundreds of pounds. Similarly, LVMH's brands like Louis Vuitton and Dior have such powerful brand prestige that they can consistently raise prices, knowing their loyal customers will continue to buy. This pricing power, whether from market control or the high value of the brand, is crucial for maximising profit margins.

Furthermore, maximising growth through takeovers creates high barriers to entry, protecting the business from future competition. The article states that Luxottica (now part of EL) grew through 'a series of aggressive takeovers and acquisitions' to control the supply chain from manufacturing to retail. This strategy makes it difficult for new rivals to emerge. In a parallel move, LVMH achieves the same protective barrier by acquiring iconic brands, such as its purchase of jeweller Tiffany & Co. This creates a fortress of high-value brands that is almost impossible for a new business to challenge.

However, an aggressive growth strategy can have significant drawbacks. One key issue is the potential for a negative corporate reputation. EL is criticised for its high prices and its takeover of Oakley was described as an 'attack', suggesting a ruthless culture. This can damage brand loyalty. Likewise, LVMH has faced criticism for its aggressive business tactics in the past, such as its failed hostile takeover attempt of rival firm Hermès, which can tarnish the exclusive image of its brands.

Another major risk is increased scrutiny from competition authorities. A business that becomes too dominant, like EL, risks legal challenges or being forced to break up to protect consumer interests. The article describes its market hold as 'stunning', implying it is an unusual situation that regulators might target. This risk applies to all dominant firms. For instance, LVMH's acquisition of Tiffany & Co. required approval from global regulators concerned about its growing influence. This constant threat means that pursuing growth at all costs might not be a wise long-term strategy.

In conclusion, maximising growth to achieve market dominance is critically important for a business. The ability to set prices and create high barriers to entry, as demonstrated by EL with its Ray-Ban brand generating over £1.5 billion in sales, directly translates into achieving core financial objectives. However, the strategy's ultimate importance depends on balancing power with responsibility. If growth is pursued so aggressively that it attracts widespread consumer criticism or regulatory intervention, as both EL and LVMH must be wary of, the strategy becomes self-defeating. Therefore, while achieving market dominance is a hugely important goal, the maximisation of this at all costs is less important than building a powerful yet sustainable leadership position.

Sample examiner comment

16/16 (Level 4 – an excellent response, fully focused on the question)

A depth and range of knowledge and understanding are shown of the importance of maximising growth when selling products in a monopolised market. 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 maximising growth when selling products in a monopolised market. The answer shows a balance of competing arguments and a clear focus on answering the question throughout.

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