1996

Market Share Superstitions (Letter)

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Market Share Superstitions (Letter)

Abstract
Anterasian et al. present a one-sided argument that the use of market share as an objective is detrimental. Because two-sided arguments are persuasive for intelligent audiences, one might wonder why they chose a one-sided approach. Having spent the past decade working on this topic, I conclude that the reason is simple: There is no contradictory evidence. Substantial and growing evidence suggests that market share objectives harm the performance of firms. Given more space, the authors could have provided even more evidence. For example, game theory studies show that competitive objectives are harmful to oneself.

Disciplines
Business | Business Administration, Management, and Operations | Business Analytics | Business Intelligence | Marketing | Organizational Behavior and Theory
MARKET SHARE SUPERSTITIONS

In an article published more than twenty years ago, two colleagues and I described the strong association between market share and profitability. "Are U.S. Managers Superstitious about Market Share?" is the latest in a long list of criticisms of our work and that of other writers on the subject (see "Are U.S. Managers Superstitious about Market Share?" by Cathy Anterasian et al., Summer 1996, reprint 3745). The authors claim that such criticism has "recently...swelled." But the references they cite on this point appeared in the late 1970s and early 1980s. Controversy over the market share-profitability link is hardly new.

The authors suggest that in cyclical industries, it may be a mistake to "cling stubbornly to the market share dogma" by attempting to maintain share during a boom. As an example, they describe how Ford gave up auto market share in the late 1980s. During the 1991-1992 recession, Ford also outperformed GM and Chrysler. But in this latter phase, Ford gained market share! Indeed, any business that succeeds in reducing the ups and downs in sales resulting from industry cycles will lose share during expansions and gain share during contractions. The benefits of stable operations do not imply that market share is unimportant.

The authors claim that Japanese managers avoid the trap of pursuing market share, despite contrary evidence from a survey by Makino. According to Anterasian et al., Japanese managers "subconsciously" opt for stability in preference to increasing share. Similarly, the authors cite Ries's admiring comments on the share-building strategy pursued by Toys 'R' Us. Nevertheless, they say, Ries's views are "unconsciously consistent" with their own because he also applauds Wal-Mart. Since Wal-Mart has steadily gained market share in a mature industry for decades, it is hard to see how their success demonstrates the superior value of "stability."

I am concerned that the authors are giving dangerous advice when they recommend that managers "never make the market share calculation." Market share has served as a valuable indicator of competitive performance for many years and in many industries. It reflects how well a business is doing in satisfying customers as well as relating performance to that of rivals. Regular monitoring of share is especially important in growing industries, where sales volume can expand even when relative competitive position is being eroded. A classic example was that of Harley-Davidson motorcycles during the rapid growth of the U.S. market during the 1960s and 1970s.

I hope that managers will continue to pay attention to market share and that they will not deface their copy of Philip Kotler's marketing text as advocated by the authors. Properly interpreted, market share measures or forecasts provide valuable information about competitive performance and expected profitability.

Robert D. Buzzell
Distinguished Professor
Graduate Business Institute
George Mason University
Fairfax, Virginia

Anterasian et al. present a one-sided argument that the use of market share as an objective is detrimental. Because two-sided arguments are persuasive for intelligent audiences, one might wonder why they chose a one-sided approach. Having spent the past decade working on this topic, I conclude that the reason is simple: There is no contradictory evidence. Substantial and growing evidence suggests that market share objectives harm the performance of firms. Given more space, the authors could have provided even more evidence. For example, game theory studies show that competitive objectives are harmful to oneself.

Why then do many (not all) managers cling to their beliefs that market share is a useful goal? The authors attribute it to superstition. I attribute it to folklore, i.e., the techniques and concepts that are adopted, without any formal evaluation of their effectiveness, simply because others are using them. Managers' experience is likely to lead them astray. Assume that the Atlas company decides that it wants to get market share from its major competitor, Babo, Inc. It may very well be successful in getting market share, even though Babo may respond in kind. Atlas's profits may be less than if it had not tried to gain at Babo's expense, but there is no way that it can learn about this from its experience.

Folklore applies to academics as well as to managers. For example, at a talk in 1992, I asked twenty-three academics whether empirical evidence would affect their opinions about the use of market share as an objective: 35 percent said it would not. I have also challenged colleagues to provide evidence favoring the use of market share as an objective: they replied only with examples, such as "What
about General Electric?” (While the use of anecdotes is a weak form of argument, even the GE story is suspect; GE’s ROI was lower in the decade after it espoused a goal of market share than it was in the preceding decade.) Managers should not use market share as an objective. Instead, they should focus directly on profits. I cannot find a way to say this using a two-sided argument.

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The authors challenge effectively the premise that there is a direct link between market share and profits. A much more valuable way of evaluating the sale goals of an enterprise is to emphasize the quality of those sales, which, in turn, leads you to the all-important issue of customer satisfaction. This emphasis on the customer is far better than the frequent obsessive concern about the competition.

It is interesting how pervasive the quality concept is once you become accustomed to thinking in quality terms and make it your number one business objective. It should go without saying that quality sales cannot be achieved without a high-quality product that the customer perceives as a real value. Quality sales breed satisfied customers and brand loyalty.

As the article points out, many errors are committed by thinking of labor as a variable cost. “Get it while the getting’s good” leads to endless bad practices. A workforce that is in constant turmoil simply cannot produce the product and service quality that a stable, well-trained, and positive workforce can. Wasteful spending becomes endemic. If you assume that labor is largely a fixed cost, you will make many sound decisions, in some cases, giving up market share for a while, as Ford did in the eighties.

Hewlett-Packard Company embraces change driven by technology, avidly seeks growth, and rarely discusses market share. Its concerns center on the customer, product excellence, product value, and managing growth so that high quality is sustained. Increases in market share, of course, can and do result (e.g., due to its printer), but that is not the driving force at Hewlett-Packard.

Market share can be a useful analytical tool to help identify areas of product strength, weakness, and trends. It is an important element in laying plans for the future. But don’t get obsessed with it.

Donald E. Petersen
Retired Chairman
Ford Motor Company
Birmingham, Michigan

Anterasian et al.’s questioning of the market share-profitability relationship is valid. The basic criticism of prior academic research that has promoted the presence of a positive market share-profitability relationship is that it is based on simple correlational models that do not adequately control firm-specific factors. A more appropriate model would be one that includes common firm-specific drivers of both market share and profits in their models.

I studied a national sample of business units and found that when I replicated Buzzell and Gale’s work by including other competitive strategy variables such as advertising and sales-force expenditures, product quality, and breadth of product line in a performance model, market share had a positive association with profitability (measured as return on sales and return on investment). However, when I included firm-specific factors such as reputation, brand equity, and functional skills in the model, the relationship between market share and profit was no more statistically significant.

The basic implication is that in the absence of these types of firm-specific factors, the relationship between market share and profit is overstated in statistical terms. From a managerial point of view, what it indicates is that the veracity of recommendations developed from models that suffer from specification bias must be seriously questioned. The fact that intangible assets, resources, and skills such as brand equity, reputation, and functional skills are important determinants of performance is relevant to managers who have been fed rather simplistic dictums such as, “Go for market share, and return on investment will follow.” The corporate landscape is replete with examples of firms that have attempted to achieve this goal without a clear understanding of the resources, skills, and capabilities needed to get there and have failed miserably.

The authors raise the issue of the impact of sales volatility on performance. I examined the risk to firms with customer-retention strategies versus firms with transactional strategies. Although anecdotal evidence and case studies indicate that retaining customers is more profitable for firms, systematic empirical support for such a strategy is limited. I adopted a “paired sample method” i.e., evaluated two groups of firms in the manufacturing industry, one group that followed a strategy of customer retention (retained the same customers during a seven-year period) and another group that acquired new customers every year (the transaction group). I compared the two groups on income stream and strategic risk. Firms that followed a retention strategy had much