THE MEANING OF MARKET SHARE

Bhattacharya et al. recently published an interesting paper: *Examining Why and When Market Share Drives Firm Profit*.[1]

They posed the fundamental question: why is market share important?

The paper is extensive, covering goods and services, large and small, B2C and B2B, companies. Here we report some of the findings for large, goods-producing companies with a consumer focus.

Three key findings relate to CPG companies:

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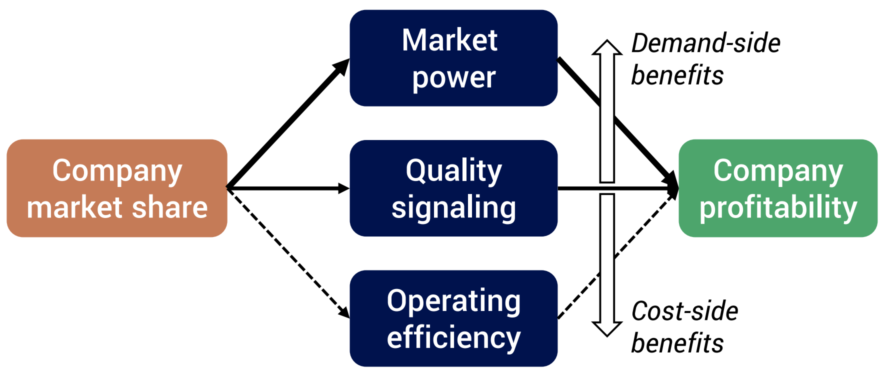
1. Measure revenue (value) market share

"In contrast to revenue market share ($p < 0.05$), unit market share ($p > 0.1$) does not predict firm profit"

2. Understand causal effects



3. Avoid price competition

"Buying share is not a profitable move"

Source: Bhattacharya et al. (2022): Examining Why and When Market Share Drives Firm Profit, *J. Mark.*; Tellusant synthesis

❶ Measure market share based on revenue (value), not on volume (units). High value share leads to higher profitability. Volume share is unrelated to profitability.

The reason value share has this impact is that it captures a company's ability to price up.

❷ There is a casual relationship from market share, to three profit drivers, to profitability.

First, for large companies (as opposed to startups), the most important is market power. This is the company's ability to influence the price of its product offerings by exercising control over demand, supply, or both.

Second most important is quality signaling. Customers judge that quality is good if the company has high market share.

Third, and unimportant for CPG companies, is market share's impact on operating efficiency. It may exist, but it is tenuous.

Combined, these mechanisms lead to higher profitability for high-market share companies.

❸ The authors also looked into if it makes sense to compete on price. It **never** does. For the highest share company, it lowers profits and reduces quality signaling. For share followers, it increases the gap to the market leader and invites the leader to introduce fighter brands from below in the price ladder.

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There are always exceptions, so when we use words like 'never' or 'always', it is to emphasize a point. Do not take these words of certainty as universally applicable.

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[1] Bhattacharya et al. (2022): Examining Why and When Market Share Drives Firm Profit. *J. Mark.* Vol. 86(4) 73-94. https://doi.org/10.1177/00222429211031922