Market Share and Market Growth

Market share is the proportion of a market a single firm's sales total. So it could be 20% by sales volume, or perhaps 25% by sales value. To calculate market share divide a firms sales by total market sales. Sales can be measured on a value basis (£s), or on a quantity basis, the number of units sold.

A firm with sales of £10,000 in a market of £200,000 will have a market share of 5%.

Market Share, as a measure of success, is important to firms since the greater the share, the more likely the stability of the brand's performance in a marketplace. A product with 65% market share is a force with which to be reckoned. A product with 3% share is vulnerable to a variety of market factors such as aggressive pricing policies by competitors, promotions by competitor firms, loyalty to stronger brands etc.

Reasons to Increase Market Share.

Market share often is linked to profitability and so firms will attempt to increase their sales relative to competitors – that is take a larger market share, or if you prefer a bigger slice of the pie. Reasons that a firm may seek to increase market share include:

- **Sales growth in a stagnant industry** - when sales for an entire market or industry are not growing, the firm still can grow its sales by taking sales from competitors and in so doing increase its market share.
- **Increased bargaining power** - a larger player has an advantage in negotiations with suppliers pushing down prices paid. We have seen plenty of evidence of this in the UK with the big supermarket chains forcing down prices paid to farmers.
- **Economies of scale** - higher volume leads to lower average costs
- **Reputation** – the largest of the market leaders have political and economic power that they can use to their advantage.

Reasons Not to Increase Market Share.

An increase in market share is not always desirable. For example:

- If the firm is near its production capacity, an increase in market share might create the need for additional capital investment, bring costs and risks..
- Overall profits may decline if market share is gained by increasing advertising spend or by reducing prices.
- A price war might be provoked if competitors attempt to regain their share by lowering prices.
- A small niche player may be tolerated if it captures only a small share of the market. If that share increases, a larger competitor may decide to enter the niche, recognising profits are to be made, or to destroy potential future competition.
- Competition issues such as action by the Competition Commission, may arise if a firm increases share and starts to dominate a market.

Ways to Increase Market Share.

Product - the product can be altered to provide more value to the customer, for example, by improving added value aspects or product quality.

Price - if the price elasticity of demand is elastic, a decrease in price will lead to a more than proportional increase in sales quantity and an increase sales revenue. But this tactic may lead to a price war.

Place / Distribution - add new distribution channels.

Promotion - increasing advertising expenditures can increase market share, unless competitors respond with similar increases.

It can even be true that firms may wish to decrease market share. For example, if a firm is able to identify any customers that are unprofitable, it may drop these customers and lose market share while improving overall profitability and profit margins.

Market Growth.

Market growth measures the increase in value of a whole market, not just the sales of any individual firm within the market. Market growth is usually measured in % terms. A fast growing market may have the total sales value increasing by 10% a year. A slow growing or stagnant market may be increasing total sales value by 1 or 2% a year. There are of course some markets where sales values are shrinking—video recorders is just one example.

Market growth can be driven by a number of factors. These include;

- Increased Real Incomes
- Fashion
- New Technology
- Health Concerns
- Effective Marketing

It is important for firms to have successful products in fast growing markets (Cash Cows), as these will help ensure future profitability.

Notes