

Market share is the result of competitive advantage

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By Myron Leonard, READERS

In his book "The Myth of Market Share," award-winning business journalist Richard Minitier, formerly an editor for The Wall Street Journal Europe, attacks the notion that corporate profits rise as companies grab more territory in the marketplace.

Market share is viewed as being the fool's gold of modern business. Companies that maximize market share end up minimizing profits, while their smarter rivals earn higher returns.

One argument for market share is "leadership." The theory is that the dominant firm can add features to its product or reduce its marginal profit to control the price.

This philosophy overlooks the fact that consumers, not producers, decide what features are important and how much they are worth. Also, cutting margins to increase sales invites competitors to follow suit.

A second argument suggests that as market share increases, so do profits. This theory overlooks comparative advantage and price.

There are always markets that are cheaper for a niche player to serve than a mass producer.

The author notes that the most profitable companies, more than 70 percent of the time, didn't have top shares.

Minitier also suggests that market share is about the past and is calculated by examining and tabulating sales that have already occurred.

It is about past competitors and therefore hides future competitors -- new entrants who can topple a dominant firm and seize a market.

For example, Lego measured itself against what it thought were its competitors while holding a huge percentage of the worldwide construction-toy market. Then, executives began noticing that market share was too narrow a measure of their competition.

In reality, Lego was competing for a share of a child's time, and children were increasingly playing with video games and watching television. If Lego wasn't careful, its central market would move away from the company.

So Lego began diversifying into electronic toys, even though it meant expanding the definition of its market and lowering existing market share. "By abandoning the security of old market definitions, Lego discovered its true competitors -- and reorganized to meet them."

The author views market share as a byproduct of pursuing a company's core mission. Market share is not an advantage by itself but is the result of a sustainable competitive advantage, not the cause.

"The Myth of Market Share" is an entertaining, historical review and leadership tutorial, delivering proven strategies for generating long-term profits and sustainable growth during these uncertain times.

Title: "The Myth of Market Share"

Author: Richard Minitier

Publisher: Crown Business

Length: 169 pages

Price: \$18.95

Reading time: 10 hours

Reading rating: 9 (1 = very difficult; 10 = very easy)

Overall rating: 4 (1 = average; 4 = outstanding)

Myron Leonard is professor of marketing in the College of Business at Western Carolina University. His research interests include marketing education and services marketing. For previously reviewed books, visit WCU's Web site at www.wcu.edu/cob/bookreviews.

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