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Market Share as a Measure of Performance: Conceptual Issues and Financial Accountability for Marketing Activities within a Firm

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Abstract - *Given the ever increasing pressure on marketers to demonstrate the value of their activities to the firm, the present literature review focuses on market share as a performance measure and its relationship to profitability. The paper attempts to contribute to the area of marketing performance measurement in several ways: a) in order to enhance the ability to measure marketing performance for future empirical studies, the refined conceptualization of the market share metric is presented; b) the conducted review of market share – profitability link synthesizes the findings and reveals a rather fragmented and contradicting nature of empirical studies; as a result, several research questions are formulated to (1) help academic scholars in guiding their efforts for future research and to (2) assist practitioners in improving their ability to account for marketing's contribution to the overall organizational performance and maintain marketing's stature within organizations.*

Keywords - *market share; strategy; marketing metrics; profitability*

1. INTRODUCTION

For the last few decades, performance has been a recurrent theme in strategy, including strategic marketing, and it has been of particular interest to both academic scholars and practitioners (Venkatraman and Ramanujam, 1986[37]; Farris et al., 2010)[15]. The importance of the performance or effectiveness concept, its definition and measurement is widely recognized (e.g. Campbell, 1977[10]; Farris et al., 2010)[15], and Venkatraman and Ramanujam (1986)[37] point out that the critical role of business performance or organization effectiveness "warrants close attention to conceptualization and measurement of business performance" (Venkatraman and Ramanujam, 1986, p.802)[37]. However, with the volume of literature on this topic continually increasing, there seems to be a wide variety of metrics employed and so far no consensus across the different academic disciplines has been reached on basic terminology and definitions (Farris et al., 2010)[15]. Thus, the treatment of performance in research settings remains, as Venkatraman and Ramanujam labeled it in 1986, one of the "thorniest" issues for strategy scholars today.

From the marketing standpoint, the issue of conceptualization and most importantly, measurement of marketing performance and its impact on the overall organization effectiveness is even more complex, since a "significant proportion of the market value of firms today lies in intangible off-balance-sheet assets, such as brands, market networks, and intellectual property, rather than in tangible book assets" (Rust et al., 2004)[30]. In today's highly competitive business environment where the vast majority of firms have exhausted cost-saving opportunities in other functions such as human resources, information technology, and general counsel, marketing could be "next in the line of fire" (The Marketing Leadership Council, 2001, p.27). As a result, marketing executives and scholars are under increased pressure to show how marketing expenditures add to shareholder value (Doyle, 2000)[14].

Given the breadth and complexity of the topic, as well as the ever increasing pressure on marketers to demonstrate the value of their activities to the firm, the present literature review focuses on market share as a performance measure and its relationship to profitability. The paper attempts to contribute to the area of marketing performance measurement in several ways: a) in order to enhance the ability to measure marketing performance for future empirical studies, the refined conceptualization of the market share metric is presented; b) the conducted review of market share – profitability link synthesizes the findings and reveals a rather fragmented and contradicting nature of empirical studies; as a result, several research questions are formulated to (1) help academic scholars in guiding their efforts for future research and to (2) assist practitioners in improving their ability to account for marketing's contribution to the overall organizational performance and maintain marketing's stature within organizations.

The present review circumscribes the scope of discussion by concentrating on conceptual and measurement issues of market share and is organized as follows: first, the brief overview of history and interrelationships between marketing performance measures provides the conceptual foundation and domain specification of the discussed metric; second, the definition, conceptual issues and various strategic implications of market share as a performance measure are presented; third, the market share-profitability relationship is examined to establish relevance of non-financial marketing performance measures; finally, the synthesis of extant literature leads to the managerial implications and future research directions.

2. EVOLUTION OF MARKETING METRICS

Measuring marketing performance has been of great interest to research scholars for decades. Clark (1999)[11], in search for good leading indicators of marketing performance, has identified three discernible historical phases. The first notable shift was moving from pure financial to non-financial measures in early works on marketing performance measurement. Such change was predominantly aimed at examining the productivity of corporate marketing efforts at producing positive financial outputs with the works mainly focusing on market share (e.g. Buzzell and Gale, 1987[8]; Jacobson, 1988; Szymanski, Bharadwaj, and Varadarajan, 1993), quality of services adaptability (e.g. Walker and Ruekert, 1987[38]; Bhargava, Dubelaar, and Ramaswami, 1994)[6], customer satisfaction (e.g. Anderson and Sullivan, 1993[4]; Fornell, 1992[16]; Piercy and Morgan, 1995[26]; Teas and Palan, 1997), customer loyalty (e.g. Selnes, 1993[31]; Dick and Basu, 1994[13]; Fornell et al., 1996)[17] and brand equity (e.g. Aaker and Jacobson, 1994[1]; Ambler and Barwise, 1998[2]; Haigh, 1998)[18].
According to Clark (1999), the ultimate goal of this research stream has been the prescription on how to best allocate the firm's marketing resources and relate financial outputs to marketing inputs.
The second major trend in exploring marketing performance measurement is the emphasis on customer-centric measures such as customer satisfaction, customer loyalty and brand equity. Scholars have started to look at initial marketing activities (inputs) that lead to intermediate outcomes (customer-oriented measures mentioned above) that in turn lead to financial outputs. Piercy (1986)[25] and Srivastava, Shervani and Fahey (1998)[33] conceptualize such intermediate outcomes as the marketing assets that are leveraged to produce superior financial performance.
In the 1970s the scholars initially highlighted the value of multidimensional marketing measures (e.g. Kotler, Gregor and Rodgers, 1977[21]; Clark, 1988[12]; Walker and Ruekert, 1987)[38]. The move toward multidimensional measures is clearly justified since multiple measures are psychometrically desirable to obtain the most complete picture possible of marketing performance (Clark, 1999)[11]. Furthermore, multivariate data analysis techniques (e.g. factor analysis, data envelopment analysis, etc.) have been adopted to identify underlying dimensions of business performance (Spriggs, 1995)[32].
In sum, a brief review of historical trends in marketing performance metrics clearly indicates the positive signs for further development of the field. The move to examine non-financial measures as well as financial is an obvious improvement for the discipline (Clark, 1999)[11]. The asset-based marketing perspective has exposed the short sighted nature of financial indicators and has demonstrated inadequacy of financial metrics as the sole measure of marketing performance.
Overall, Bonoma and Clark (1988)[7] have pointed out that profit, sales (unit and value) and market share are the most frequent measures of output in the literature of that period. Furthermore, Clark (1999)[11] states that market share has attracted tremendous attention as an output variable after some notable works have been published by practitioners (the Boston Consulting Group (Henderson, 1973)[19]) and academics (PIMS project (Buzzell and Gale, 1987)[8]).

3. WHAT IS MARKET SHARE? DEFINITION AND CONCEPTUAL ISSUES

Farris and colleagues (2010)[15] have defined market share as "the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity" (Farris et al. 2010, p.8)[15]. Vargo and Lusch (2004)[36] have urged the scholars and practitioners to interpret market share as a measure of how well a company has been able to predict market dynamics and the needs of the targeted customers. It is important to point out that market share should be closely monitored for signs of change in the competitive landscape; this proxy frequently drives strategic or tactical actions, since it is measured relative to the competitors' "share of customer's wallet".
However, in spite of numerous ways of defining market share and establishing this metric as a valid measure of marketing performance, the present state of the literature reveals some conceptual pitfalls that cannot be ignored and they pose potential threat to validity and operationalization of the market share concept.

3.1 The Market

Namely, it remains somewhat unclear which market is the most relevant for the purpose of gauging company performance. In other words, market can be defined in many ways and the measurement of market share in relation to each market defined can generate different results. Majaro (1977)[22] has identified the danger of selecting a market share criterion without sufficient thought of identifying the "right" market as the biggest pitfall of market share concept.
Indeed, a few decades later, there still seems to be a lot of controversy surrounding this issue: first, when talking about market share, managers assume they know what market their company is in; second, it is not always easy to measure a firm's market share in relation to a given

parameter (Majaro, 1977)[22]. Unless a firm solicits customer feedback and identifies what consumers regard as alternative choices to the firm's product (it may go beyond the direct competition), there is a real danger of formulating a misleading marketing strategy and objectives based on the nebulous criterion known as market share. The competition (buyers' alternative choices capable of saturating a particular need equally or better than the firm's product) perceived by customers defines the boundaries of the market served. For instance, if a company is in the market of selling video games, the market share can potentially reflect the DVD rental industry if the targeted customers perceive movies as an alternative choice for fulfilling their need of enjoying their free time.

Thus, it becomes imperative to identify genuine customer needs and to maintain relationship with the customers since consumer feedback facilitates to identify alternative products customers perceive may fulfill their needs. Therefore, before thinking of selecting market share criterion as a proxy for company performance, scholars and practitioners should incorporate customers' perceptions in the decision making processes aimed at identifying the competition and defining the market boundaries.

3.2 The Share

Buzzel and Gale (1987)[8] have provided some deep insights and better understanding of underlying processes that drive an increase in a share of the market relative to the competition. The fundamental premise of achieving a relative perceived product quality over competitors in order to gain a higher share of the market allows the firm to differentiate itself from the competition and take advantage of economies of scale, thus achieving low cost distinction.

Such logic is drastically different from the traditional "BCG" experience curve approach from a cause-and-effect standpoint (Peters and Austin, 1985)[24]. According to the experience curve paradigm, the cost reduction is the primary reason for pursuing share-building strategy; the firm may or may not have acceptable service and quality. Buzzell and Gale (1987)[8] urge scholars and practitioners to embrace the marketing concept by measuring market position relative to the competition by incorporating perceived product quality into their decision making processes.

This is consistent with the customer-centric approach mentioned in the previous section; the consumer perceptions of competition and alternative choices should be used for defining the domain or the boundaries of the market served, i.e. the market in which the firm actually operates. Similar to the way customers define the market domain by identifying perceived competition, product quality assessment on behalf of the consumers allows the company achieve sustainable competitive advantage (in the form of a bigger share of customer's wallet) that will lead to superior performance and profitability relative to its competitors. Thus, it is proposed that both "market" and "share" in the market share construct as a measure of marketing productivity are defined and driven by customer needs and their perceptions.

Research Question 1: What role do customer perceptions play in conceptualizing and operationalizing the market share construct?

From a strategic standpoint, such customer feedback provides merely a snapshot in a certain period of time; thus revisiting and reformulation of long term business strategies on a regular basis as well as maintaining relationships with customer remains critical for firm's success. Customer needs will naturally guide the company to clearly define the market confines within which the firm operates. Also, it may facilitate identification of direct and indirect competition as well as formulation of a well-executed marketing strategy. Only then marketers should confidently present meaningful market share figures at executive meetings and demonstrate the magnitude of marketing efforts related to the overall business success. The latter can be done by linking market share with profitability and various financial metrics of company performance.

4. MARKET SHARE – PROFITABILITY RELATIONSHIP

As it was noted earlier, it is crucial to establish a positive link between profitability and non-financial marketing measures in order to maintain marketers' credibility and reinforce the importance of the marketing function within a firm. Among different measures of performance, market share is a key indicator of market competitiveness, i.e. how well a firm is doing against its competitors (Buzzell, Gale and Sultan, 1975[9]; Farris et al., 2010)[15].

However, customer-focused approach of conceptualizing market share does not answer the general question whether establishing a high market share results in high profitability. The question is not simply intriguing: as Sullivan and Abela point out, "marketers' inability to account for the function's contribution to firm performance is recognized as a key factor that has led to marketing's loss of stature within organizations" (Sullivan and Abela, 2007, p.79)[34]. If a strong, positive relationship exists, then, according to Prescott, Kohli and Venkatraman (1986), the pursuit of the market share as a strategic goal may be appropriate. However, if the relationship is weak, or if the nature of a strong relationship is predominantly spurious, than market share, one of the most important metrics of marketing productivity, may undermine the marketers' contribution to overall business success and threaten the marketing standing within the firm.

The studies examining the relationship between market share and profitability span a broad spectrum (Szymanski, Bharadwaj and Varadarajan, 1993)[35]. In a project undertaken by the Marketing Science Institute on the Profit Impact of Marketing Strategies (PIMS), Buzzell and Gale (1987)[8] have empirically tested the market share – profitability relationship. The study of 57 Fortune 500 companies has revealed a positive link between ROI and market share.

However, although some early works indicate that market share has a significant and positive effect on business profits (e.g. Buzzell and Gale, 1987[8]; Porter, 1979)[27], other scholars question whether market share has any impact on profit (e.g. Jacobson, 1988) or even establish a negative relationship between the two variables (Armstrong and Green, 2007)[5]. Even the meta-analysis findings presented by Szymanski et al. (1993)[35] could not fully reconcile the differing viewpoints: while the results have indicated that, on average, market share has a significant and positive effect on business profits, the multivariate findings have revealed that the estimate of market share elasticity is contingent upon various specification errors, sample, and measurement characteristics. Overall, Prescott et al. (1986) suggest that the relationship between market share and business profitability is context-specific.

More recently, Armstrong and Green (2007)[5] argue that pursuit of the highest possible market share is deeply rooted into formulating and achieving competitor-oriented objectives; the authors claim that such objectives are harmful and misleading, especially when managers receive information about market shares of competitors. In essence, attaining the highest market share relative to the competition reduces profitability and harms performance (Anderson and Green, 2007).

Clearly, numerous studies reinforce the importance of the market share-profitability relationship direction. However, several empirical works yield drastically different, completely opposite at times, results. Such apparent contradiction in the literature raises some conceptual concerns and questions about market share as a valid predictor of business performance:

Research Question 2: Does higher market share always lead to higher levels of profitability?

Research Question 3: Does market share leadership automatically translates to profits?

To make matters even more complex, some works have identified chance or luck as the primary determinant of the observed market share – profitability relationship (Rumelt and Wensley, 1981)[29]. Thus, from a cause-and-effect perspective, the operational significance of market share remains doubtful and further empirical studies are needed to examine the following question:

Research Question 4: Are some firms successful because they have acquired a large market share or do they have a high market share because they are successful or even lucky?

Furthermore, some studies demonstrated that some low-market share businesses have high profitability (Woo, 1981[39]; Woo et al., 1982)[40]. In particular, it was established that high-performing low-share enterprises were located within environments characterized by stability, high value-added products, and a large number of competitors (Prescott et al., 1986). Therefore, the external environmental factors (such as levels of economic turbulence as well as industry structure) should be accounted for when the firm plans to use a market share as a business performance measure; and the market share – profitability link should be interpreted with caution given the specificity of external environmental factors:

Research Question 5: Does external environment affect the significance of the market share-profitability relationship?

5. CONCLUSION

Market share reflects how marketing expenditures contribute to stakeholders' value. As a measure of marketing productivity, market share is also linked with the overall firm's profitability. As it was noted earlier, it is crucial to establish a positive link between profitability and non-financial marketing measures in order to maintain marketers' credibility and reinforce the importance of the marketing function within a firm. Among different measures of performance, market share is a key indicator of market competitiveness, i.e. how well a firm is doing against its competitors (Buzzell et al., 1975[9]; Farris et al., 2010)[15]. Given the ever increasing pressure on marketing executives to account for marketing activities within the firm, examining market share – profitability relationship and strategic value of marketing metrics is of paramount importance to marketing scholars and practitioners.

The present review has proposed several research questions with an ultimate goal to urge scholars to establish relevance of market share as a business performance measurement; this can be done through conducting purest investigations of this metric's financial impact involving longitudinal data sources. As Rust et al. (2004)[30] suggest, the construction of customer-level data should be a priority, especially in the areas in which such data currently do not exist. To define the firm's market share, customer data sets should include not just one firm's customers, but industry-wide, longitudinal data.

If the customer is a focal point of the marketing concept, then he should be the one defining the market confines and the potential competitors as anticipated and dictated by their genuine needs. The customer-centric approach to conceptualize market share is consistent with service-dominant logic proposed by Vargo and Lusch (2004) [36]and this approach extends the framework by "empowering" the customer beyond the co-creation of value; it is proposed that customers' perceptions may also dictate the pace and dynamics of an extremely competitive marketplace by identifying the "right" market for the company.

In addition to empirical studies of marketing productivity and its relationship to measures of financial return, practical tools are needed to reflect the state of current knowledge about how market share can be translated into marketing productivity; also its longitudinal validation is required for eventual widespread practical acceptance.

In conclusion, as Ambler et al. (2001)[3] point out, in today's market companies face intensive competition and deal with more knowledgeable and aware consumers. Markets are characterized by an abundance of goods and services but buyers have less time to devote to making choices. This increasing complexity makes it more and more difficult for top managers to navigate experientially and will put an increasing emphasis on metrics.

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