

What is Market Share:

Market share often will determine whether you succeed or fail in business. In this lesson, you'll learn about it and some of its key concepts.

Definition

Market share is your share or proportion of sales of a particular product or service in the market. Market share is usually expressed in terms of a percentage of the total value of the output produced in the market. For example, let's say that you produce a particular hammer, and your annual sales equal \$2,500,000. The total market sales for the same type of hammer are \$25,000,000 for the year. Your market share is 10% ($\$2,500,000/\$25,000,000 = .10$)

Conceptual Framework

Market share is an important concept to understand. It is considered by many to be an indicator of a company's strength. In which company would you rather invest: a company with a 10% market share or a company with a 40% market share?

Market share also is often highly correlated to **brand penetration** and customer loyalty. Brand penetration is the degree to which a product is recognized and bought in a particular market. The greater your market share, the greater your brand penetration and customer loyalty will be.

Market Share as a Metric of Success

You should be wary of relying too much on market share as an indicator of success. While **market leaders** (the company with the largest market share) and **market challengers** (the companies attempting to obtain the largest market share) will compete for market share, **market followers** don't compete because they are happy to just follow the trends established by the leader and challengers. Market followers are often happy with their market share and satisfied with just maintaining it.

You should also beware of a **market nicher**, who is not concerned with accumulating large market share but rather decides to operate in a small segment of a market. In other words, a market nicher attempts to gain a strong market share of a special piece of the general market. An example of a market nicher may be Rolls Royce, which doesn't try to control the automobile market but rather caters to an exclusive segment of the market - the very wealthy. Finally, a company may have different products that compete against each other in the same market, such as different brands of shampoos or cereal.