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Market Share Superstition (Letter)

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Anterasian et al. (1996) present a one-sided argument that the use of market share as an objective is detrimental. Because two-sided arguments are persuasive for intelligent audiences, one might wonder why they chose a one-sided approach. Having spent the past decade working on this topic, I conclude that the reason is simple: *There is no contradictory evidence.* Substantial and growing evidence suggests that market share objectives harm the performance of firms. Given more space, the authors could have provided even more evidence. For example, game theory studies show that competitive objectives are harmful to oneself.

Why then do many (not all) managers cling to their beliefs that market share is a useful goal? The authors attribute it to superstition. I attribute it to folklore, i.e., the techniques and concepts that are adopted, without any formal evaluation of their effectiveness, simply because others are using them. Managers' experience is likely to lead them astray. Assume that the Atlas company decides that it wants to get market share from its major competitor, Babo, Inc. It may very well be successful in getting market share, even though Babo may respond in kind. Atlas's profits may be less than if it had not tried to gain at Babo's expense, but there is no way that it can learn about this from its experience.

Folklore applies to academics as well as to managers. For example, at a talk in 1992, I asked twenty-three academics whether empirical evidence would affect their opinions about the use of market share as an objective; 35 percent said it would not. I have also challenged colleagues to provide evidence favoring the use of market share as an objective; they replied only with examples, such as "What about General Electric?" (While the use of anecdotes is a weak form of argument, even the GE story is suspect; GE's ROI was lower in the decade after it espoused a goal of market share than it was in the preceding decade.)

Managers should not use market share as an objective. Instead, they should focus directly on profits. I cannot find a way to say this using a two-sided argument.

Reference

Anterasian, C. et al. (1996), “Are U.S. managers superstitious about market share?” *Sloan Management Review*, 37 (Summer), 67-77.