Note on Gaining Market Share

By Peter S. Cohan

Strategists are often challenged to devise ways for companies to gain market share. However, the financial projections at the end of their strategy presentations do not always withstand the scrutiny of boards who must decide whether to fund the strategies.

If you are selling to a business, here are eight questions to which boards demand answers:

- Which groups of customers – or market segments -- will the strategy target?
- What are those market segments' revenue, growth, and average profit margins?
- Who are the different decision-makers in those market segments' purchase processes?
- What ranked criteria do decision-makers use to pick winning suppliers?
- How do decision-makers rank competing suppliers on the criteria?
- Where does the strategist's company stand on these criteria relative to its rivals?
- What are the most attractive market segments in which the company has a strong competitive position?
- Which strategy should the company pursue and how much market share can it gain as a result of that strategy?

If you are selling directly to consumers, the decision-making process may be less complex. However, each consumer is likely to have his or her own ranked set of purchase criteria and your company will still need to do better than competing suppliers in order to turn that consumer into a paying customer.

Why Gaining Market Share Matters

Companies want to increase revenues. And it is much easier to make revenue projections that climb to the sky than to meet those projections by persuading enough customers to buy a company's product.

Good board members know how much effort goes into meeting ambitious revenue targets. For example, unless the strategy is targeting an entirely new industry with no competitors, meeting revenue projections will require either selling more to the company's existing customers or taking business from competitors.

And in order to take business from competitors, the company will need to offer such a superior value – e.g., benefits divided by price – that customers will switch from rivals.

In order to persuade boards to provide resources, strategists must make a compelling case that the company can win enough business to make the revenue projections credible.

Absent a defensible foundation for those projections, the board is likely to turn down a strategist's request for resources.

Meeting a more common executive challenge – achieving a sales quota -- could also be made less stressful by answering these eight questions.

For example, if that executive could potentially call on 1,000 potential customers, it would clearly be more effective to find say, the 50 or 75 of those potential customers who would be most likely to buy the company's product with the shortest sales cycle.

To gain market share a competitor must persuade customers to switch from rival suppliers one at a time. In order to win that battle, the customer must be persuaded that the benefits of the switch outweigh its costs.

And making that case effectively requires deep insight into the questions listed above.

The following seven steps can help strategists to answer those questions so that they can make a compelling case for the resources that will help the company to gain market share.

How to Gain Market Share

1. Segment the market

Segmenting the market means grouping potential customers based on shared characteristics. The purpose of the segmentation analysis is to figure out which groups of customers would represent the most attractive ones for a company to target.

For example, I worked with a company that sold employee benefit services. I suggested that it might consider dividing up its potential customers based on three criteria:

- *The number of employees* – e.g., under 20, 21 to 50, 51 to 100, and so on,
- *Industry* – e.g., automobiles, technology, health care, and
- *Price-sensitivity* (for example, low, moderate, and high).

Once the company had figured out how to segment the customers, I suggested that the company should collect the following data about each of the segments:

- Revenue,
- Growth rate,
- Number of competitors, and
- Average profit margin.

To illustrate this idea based on actual data, consider the $26.7 billion (2012 revenues) flexible packaging industry – consisting of 411 companies that make flexible, rather than rigid, packaging.[1]

Flexible packaging is segmented based on two criteria – packaging format and within the format – more specific product varieties (called substrates). For example, flexible packaging consists of 14 different formats – the largest of which are bags (excluding storage and trash) which account for 26.4% of the 2012 total revenues and lay flat/pillow pouches (19.3% of the total).

The FPA report details five substrate types of the largest category – plastic bags. And Table 1, below, details the 2012 revenue and 10 year growth rate of each of the substrate categories in the $7.1 billion bag segment.

Table 1. Revenue, Growth Rate, and Estimated Margins of Flexible Packaging Bag Segments (2002-2012)

Substrate Segment	2012 Revenue ($MM)	2002-2012 Growth Rate	2012 Estimated Segment Pretax Margin[2]
Single film bags	$645	0.9%	6%
Coex film bags	1,400	3.4	8
Heavy duty shipping sacks	2,649	3.3	8
Multiwall bags	1,097	-0.3	5
Box liners	1,281	3.3	8
Total	**$7,072**	**2.4%**	**7%**

This example highlights an important reason that segmentation matters – some segments are inherently more attractive than others. For example, the multiwall segment is relatively small and shrinking while the heavy duty shipping sack segment is the largest segment and is growing much faster than the overall box market.

Strategists should segment the market and collect such data on each segment so they can analyze which segment is the most attractive.

In this case, the strategies would need to conduct additional research to identify the number of suppliers for each bag substrate – for example, the FPA identifies two suppliers of heavy duty shipping sacks[3] -- and the average profit margin for suppliers in these segments (the FPA reported that the average pretax profit margin for the entire industry was 7% in 2013).[4]

A thorough strategist might view this report as a good starting point for gathering the needed data and would be advised to call the FPA to obtain additional details on the variations in profitability by substrate segment.

2. Rank the segments based on attractiveness

The next step in the process is to rank the segments based on their attractiveness to the average participant. This ranking sets the stage for another level of analysis – figuring out which of the most attractive segments would be best for a specific company.

As an example of how to rank segments based on attractiveness – the strategist would rank the segments based on, for example, revenues, growth rate, and average profit margin.

To apply this approach to the flexible packaging bag segments, the two most attractive segments would be heavy duty shipping bags and coex film bags as illustrated in Table 2, below.

Table 2. Ranking of Flexible Packaging Bag Segments by Three Attractiveness Dimensions (1=best, 5=worst)

Substrate Segment	Revenue	Growth Rate	Pretax Margin	Total Score
Heavy duty shipping sacks	1	2	1	4
Coex film bags	2	1	1	4
Box liners	3	2	1	6
Single film bags	5	3	2	10
Multiwall bags	4	4	3	11

Strategists can now narrow down potential customers even further by examining their company's competitive position in the most attractive segments.

To do that, strategists would identify potential customers in those segments and conduct three analytical steps:

- Map out the decision-making process (DMP) for the most attractive segments
- Analyze how your company stacks up on the purchase criteria relative to competitors
- Assess how your company stacks up on key capabilities relative to competitors

3. Map out the decision-making process (DMP) for the most attractive segments

Within the most attractive segments, strategists should identify the leading buyers of products in those segments. Strategists should contact these companies and ask them to describe their DMPs -- how they identify, evaluate and select the winning supplier.

Specifically, suppliers should ask potential customers who sends out the Request for Proposal (RFP) from the company, who evaluates the responses to the RFP, who narrows down the list of finalists, and who picks the winner.

As an example of a DMP, consider how Procter & Gamble picks a supplier of plastic shampoo bottles. Based on an interview with a retired P&G executive, Figure 2, below, reflects P&G's process for selecting such suppliers.

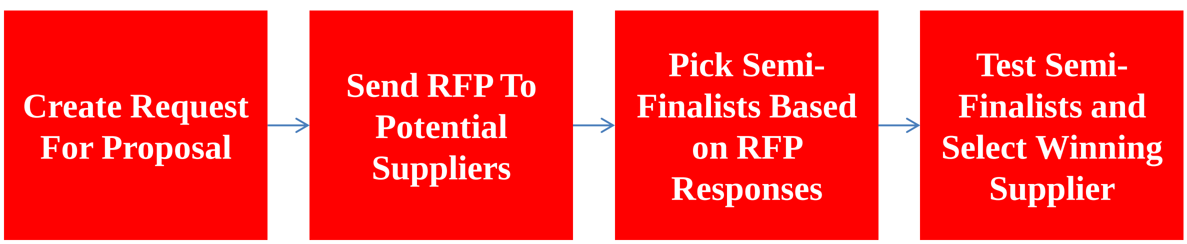
This process typically takes two to three months when P&G is working with a supplier with which it has contracted in the past and four to five months for a first-time supplier. Moreover, the process of evaluating semi-finalists is based on "checking their references and vetting their process to insure they can deliver as promised and at the right price," according to Peter Graham, the retired P&G Vice President[5].

P&G ranks these suppliers on the basis of the following criteria, ranked in order of importance:

- Price
- Proximity of bottle production plant to shipping location
- Reliability of supply – meaning how frequently the supplier delivers the items and quantity that the customer specifies to the right place at the right time

- Quality of product – e.g., absence of contamination, consistent integrity -- and shipment containers

Figure 1. Outline of P&G Shampoo Bottle Supplier DMP



The following steps would enable strategists gather this data for the DMP of a product or service that is sold to a business customer:

- Identify customers within the most attractive market segments
- For each customer, explain to its CEO, the company's goal of understanding its DMP
- Ask the company's DMP participants to define their role in the process, the criteria they use to and how they evaluate suppliers and how they rank the suppliers
- Develop a diagram of the DMP and review it with industry experts to see whether further refinement is necessary
- Create final DMP diagram

5. Analyze how your company performs on the purchase criteria relative to competitors

As we saw earlier in this note, a company can gain market share if it can persuade a rival's customer that the benefits of the switch outweigh its costs.

A way to do that is to outperform rivals on that customer's ranked purchase criteria. For the shampoo bottle example noted above, that would mean P&G would choose the supplier with the

- Lowest price,
- Location closest to the customer's shampoo factory,
- Highest percentage of accurate deliveries, and
- Highest proportion of shipped bottles that conform to the customer's quality standards.

To illustrate the concept of outperforming rivals on ranked customer purchase criteria, consider the case of Berlin Packaging, a $900 million (2014 sales) distributor of plastic, glass and metal containers and closures for the food and beverage, household, personal care and healthcare markets.[6]

Berlin Packaging grew over 10 times faster than the $55 billion packaging industry for the decade ending in 2014 – at a 22.6% annual rate in an industry that grew at a 1.5% to 2% annual rate.

As Table 3, below, illustrates Berlin is growing faster than the industry – thus taking market share. It matches or beats competitors on the "table stakes" for becoming a strong contender for a contract -- by matching rivals on price but doing better on reliability of supply, product quality.

But it wins the business by giving away services that help potential customers to boost their cash flow – defined as Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA).

Table 3. Customer Perception of Berlin Packaging on Ranked Purchase Criteria

Purchase Criteria	Berlin Relative Performance	Basis For Assessment
Price	Matching	Berlin seeks to match the price customers require as do its rivals
Reliability of Supply	**Superior**	As of April 2015, "for the last 131 months in a row we have delivered 17,000 shipments a month 99% on time -- that is better than the industry," according to Berlin
Product quality	**Superior**	Products conform to customers' quality standards more frequently than rivals, says Berlin
Increase customer EBITDA	**Superior**	Berlin gives customers services that boost their EBITDA in exchange for long-term contracts

This example depends on the objectivity of Berlin's claims. But assuming these claims are accurate, they offer a compelling explanation for how Berlin has been able to take market share and thus grow so much faster than the industry.

How can strategists gather this data and conduct analysis that can lead to an objective assessment of how a company performs on the customer's ranked purchase criteria? The following steps would work for a product or service that is sold to a business customer:

- Identify competing suppliers for the company's product to that customer
- Ask DMP participants how these suppliers perform relative to each other on the ranked purchase criteria
- Ask DMP participants to explain the basis on which they arrived at these competitor scores
- Draft a table that maps how the competitors perform on the ranked criteria
- Review the competitor scoring with industry experts to explore possible refinements
- Create final competitor scoring

5. Assess how your company stacks up on key capabilities relative to competitors

A company's ability to outperform competitors on ranked purchase criteria is essential for persuading a customer to switch from a rival.

However, if a company wants to win a new customer and ultimately win long-term contracts with the customer, it must be able to maintain its superiority over time. In order to accomplish this, the company must have competitively superior capabilities.

Michael Porter's Value Chain concept presents a map of generic capabilities. However in order to be useful, the strategist must identify the specific capabilities that shape how well the company will be able to satisfy a customer's future purchase criteria.

Strategists should then make a list of capabilities -- e.g., marketing and sales, service, computer systems, product development -- required to win business in the most attractive segments and analyze how well the competitors perform each of the key capabilities. Strategists should then compare how well their company performs these key capabilities compared to competitors.

Table 4, below, illustrates how five critical capabilities influence a company's ability to win on the ranked purchase criteria and Berlin Packaging's strength in that capability relative to rivals.

Table 4. Berlin Packaging's Relative Performance on Critical Plastic Bottle Capabilities and Importance to Winning in Customer Purchase Criteria

Capability		
Purchasing	*Importance to Purchase Criteria*	Economies of scale in purchasing helps Berlin to lower its costs – thus enabling it to match price demands
	Berlin Relative Performance	**Superior.** Berlin design its own packaging and contracts out the manufacturing to 700 suppliers around the world[7]
Outbound Logistics	*Importance to Purchase Criteria*	Efficient outbound logistics helps Berlin to maintain high shipping reliability
	Berlin Relative Performance	**Superior.** Berlin uses tight control of outbound logistics to ship the right packages to the right destinations on time
Human Resources Management	*Importance to Purchase Criteria*	Human resources management enables Berlin to attract and motivate people who boost Berlin's EBITDA
	Berlin Relative Performance	**Superior.** Berlin uses a psychological contract with its employees – paying them more than industry to boost Berlin's EBITDA
Firm Infrastructure	*Importance to Purchase Criteria*	Firm infrastructure is applied to customers to boost their EBITDA
	Berlin Relative Performance	**Superior.** Berlin gives away services to customers in exchange for long-term contracts. It lends customers money to buy productivity-enhancing machines at zero interest, helps customers to install ERP and lean manufacturing techniques, works with them to get ISO-quality-certified, and helps customers to analyze weaknesses in their competitors' product lines and develop products to exploit those weaknesses

Strategists must gather and analyze data to identify the critical capabilities a company requires to outperform rivals on customer purchase criteria. The following steps would work for a product or service that is sold to a business customer:

- Identify industry leaders
- Study publicly-available information from those companies and analyze research reports about them from Wall Street analysts, industry experts, professors, and industry trade publications
- Develop a preliminary comparison of the competitive strength of rivals in performing the critical activities
- Conduct an assessment of the company on these critical activities relative to rivals
- Review this assessment with industry experts to identify analytical gaps

- Create final assessment of the company's competitive position on key capabilities

6. Evaluate segments based on attractiveness and competitive position

How can strategists integrate the foregoing analysis to decide which segments to target first? In general, they should screen segments based on two criteria: its attractiveness for the average participant and the company's current or potential competitive position in each segment

The segment attractiveness for the average participant can be ranked from high to low based on factors including the following:

- Size
- Growth rate
- Average profit margin
- Current and future strength of five competitive forces

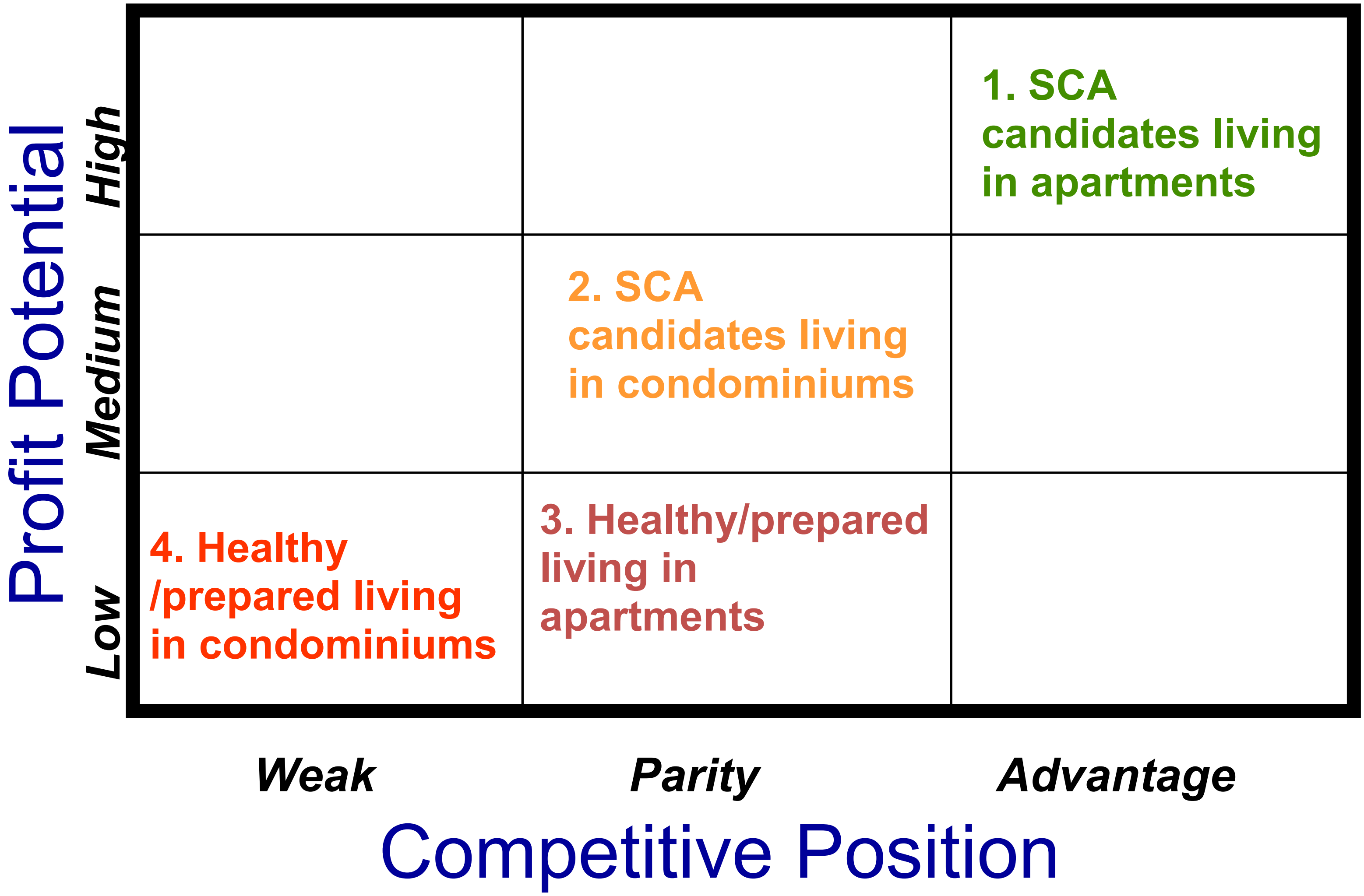
The company's potential competitive position can be scored based on the company's strength or weakness on the following dimensions:

- Current and potential market share
- Customer perception of company's performance on purchase criteria relative to rivals
- Objective assessment of the company's performance on critical activities relative to rivals

Consider the following example from a consulting project I conducted in the Automated External Defibrillator (AED) market – products that enable first responders to apply an electric shock to a person whose heart has stopped. This project sought to identify the most attractive customer groups to which to sell AEDs for people with a higher likelihood of Sudden Cardiac Arrest (SCA).

As illustrated in Figure 2, below, my research found that the most attractive segment for our client was SCA candidates living in apartments – based on the inherent attractiveness of the segment and the client's competitive position.

Figure 2. Profit Potential and Client Competitive Position in Home AED Market Segments



Here are the steps a strategist can take to produce this chart:

- Assess segment profit potential
- Evaluate company's likely competitive position per segment
- Map segments based on profit potential and competitive position
- Focus on segments with high profit potential in which firm can win
- Avoid segments with low profit potential where firm will lose
- Double-or-quit with segments in between

7. Choose the strategy and set sales goals

The foregoing analysis provides the foundation on which to build an explanation of why a company can gain market share and how much revenue will result from that progress.

To recap, market share gain depends on persuading customers to switch their spending from a rival to you. And in order to do that, your company must persuade the customer that the benefits of switching exceed the costs. Your company can do that by convincing customers that you are better at meeting their ranked purchase criteria and that you can sustain that superiority because of how your company performs critical activities.

Strategists face two final tasks in persuading a board of directors that their work can yield market share gain:

- Articulate a strategy by defining clear strategic choices
- Forecasting the revenue gains that will result from that strategy

Table 5, below, suggests the way that strategists might summarize the strategic choices the company should make -- detailing the Home AED strategy I recommended.

Table 5. Home AED Strategy

Dimension	Choice
Generic Strategy	Low Cost Producer
Competitive Scope	SCA candidates living in apartments
Price	$500
Manufacturing	Outsource to China
Distribution	Express mail from warehouse
Marketing	Internet and radio advertising
Sales	Call on cardiac care centers

To come back to the question raised at the beginning of this Note: How can a strategist present a defensible revenue forecast? The answer Berlin provided is “bottoms-up” – meaning to estimate the revenues in the year ahead for each customer and product.

That revenue forecast will be more credible if two conditions are satisfied:

- The revenue for the year ahead is based on a historical growth rate in revenue from that customer – based on how the size of the customer’s budget and your company’s share of that budget; and
- How well the customer perceives that your company can perform on the ranked customer purchase criteria and the activities required to sustain that relative performance.

Table 6, below, illustrates how such a forecast might be developed using imagined customers and financial data. It assumes that all the companies are seeking to control their variable costs in 2015 so their budgets for shampoo bottles will stay the same between 2014 and 2015.

Table 6. Berlin Packaging Illustrative Shampoo Bottle Revenue Forecast

Customer	2014 Revenue ($mm)	Share of 2014 Budget	Share of 2015 Budget	2015 Revenue ($mm)	Competitive Assessment
Procter & Gamble	$25	30%	35%	$30	Excellent product quality, best delivery record, and competitive price. Adding facility closer to customer
Unilever	20	20%	15%	15	Excellent product quality, best delivery record, and competitive price. Customer closing facility due to its declining sales
L'Oreal	14	30%	30%	14	Excellent product quality, best delivery record, competitive price. No change expected in competitive position
Colgate	10	20%	30%	15	Excellent product quality, best delivery record, competitive price. Adding facility closer to customer
Total	**$69 mm**			**$74 mm**	

Conclusion

Gaining market share happens only if a company can persuade a customer to switch from a rival's product. Accomplishing this depends on changing the customer's economic incentives so that the benefit of switching exceeds the costs.

This Note has presented a way for strategists to focus a company's attention on the market segments likely to be most attractive to the company due to the inherent profit potential of the segment and the company's prospective competitive position.

By talking with customers, strategists can learn more about the customer's DMP, the criteria it uses to pick winning suppliers, how well the customer perceives that the company performs on those criteria, and the relative strength of the company's capabilities required to sustain competitive superiority.

Based on this analysis, strategists can recommend which segments will be most attractive and how the company should position itself in those segments. Ultimately, these insights can provide a foundation from which the company can develop a credible forecast of how much market share it will gain and how much revenue will result.

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[1] "Flexible Packaging Industry Segment Profile Analysis," *Flexible Packaging Association*, 2013. http://www.flexpack.org/PDFs/Misc_Reports/FPA_Industry_Segment_Profile_Analysis.pdf

[2] Author estimates based on the relative growth of the segments – assuming that slower growing ones would be less profitable than average

[3] "U.S. Flexible Packaging Converters Directory 2010 – 2011," *Flexible Packaging Association*, 2010 http://www.flexpack.org/pdfs/publications/fpa_2010-2011_converter_directory.pdf.

[4] Jim Mize, "Flexible Packaging Association Connecting. Advancing. Leading.", Flexible Packaging Association, March 14, 2014, https://www.flexpack.org/MEMONL/mo_presentations/2014_am/Mize.pdf

[5] Interview with retired P&G vice president, Peter Graham, April 21, 2015.

[6] Peter Cohan, "4 Pincers for Crushing Your Competition," *Entrepreneur*, April 22, 2015. http://www.entrepreneur.com/article/245019

[7] Paul Stukel,"Why merely satisfy if you can go for the thrill?," *President and CEO Magazine*, April 16, 2013, http://www.presidentandceomagazine.com/opinion/4707-why-merely-satisfy-when-you-can-go-for-the-thrill.html