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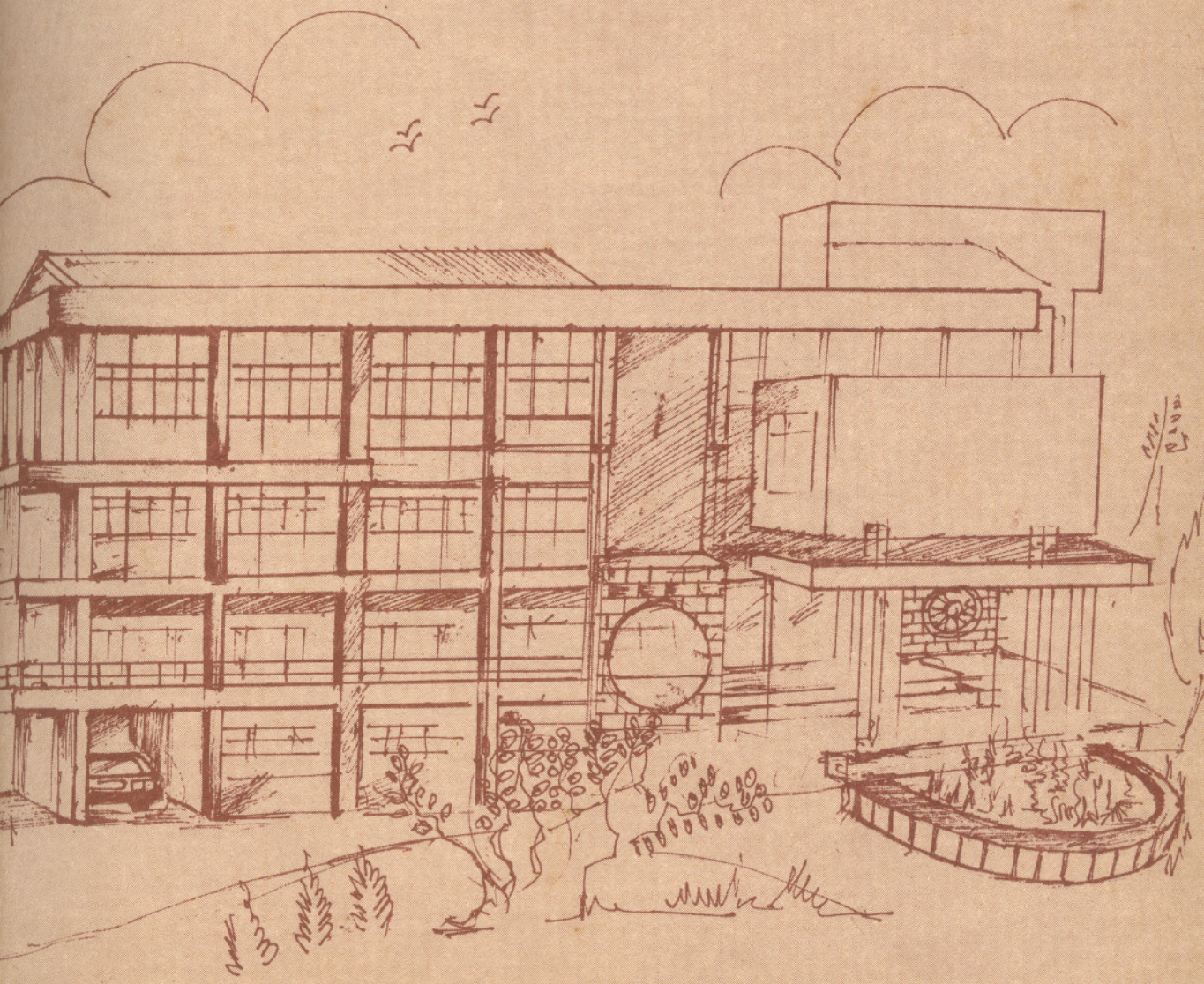

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UNDERSTANDING THE RELATIONSHIP BETWEEN MARKET SHARE AND DISTRIBUTION

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Market share is quite commonly used to indicate the market position of a company. Large market share is both a reward for providing better value to the customer and a means of realising lower costs. Under the most circumstances, firms that have achieved a large share of the market they serve are considerably more profitable than their smaller share rivals.

Because of this, there has been lot of interest in the relationship between marketing mix variables and market share. This paper discusses issues in understanding this relationship based on the article by Reibstein et al (1995).

1.0 Measures of Distribution

At outset itself, it is important to develop a quantitative measure of distribution. Three principal measures have been employed in the literature. All these measures require that the same universe of outlets used for measuring the percentage is also used as the basis for defining share.

1. % Physical Distribution:- Percent of outlets carrying the product. The major problem with this measure is that it does not distinguish between outlets with high sales/share potential and those with very little.

2. % All Commodity Volume (% ACV):- This is the percentage of total outlet sales in all commodity groups made by stores which stock the product in question. In practice, the total sales of the

stores in the universe are often estimated on the basis of square feet of selling space or other indicators. Another problem is that an adjustment is needed to reflect category potential. Per point of ACV, convenience stores represent more potential for snacks, beverages and tobacco than they do for cake mixes.

3. % Product Category Volume (% PCV) is the percentage of category sales made by the stores which stock the product in question. In practice many managers regard % ACV as if it were exactly the same as % PCV (Farris et al 1989).

It is difficult identify whether distribution causes market share or market share causes distribution. Arguments can be made about both causes as well as intervening variables.

2.0 CAUSES

1. Distribution leads to market share.

This is the primary cause of market share as it would be impossible for anyone to buy the product. This is especially true for convenience goods as the higher availability of the product leads to higher opportunity for buying the product. However, there is an exception if brand loyalty is high. In this case, customers would refrain from buying until they locate the store. Without loyalty or availability, sales will be lost to the available brands. In other words, they will benefit from "compromised" choice. Thus added distribution provides not only access to the customers who prefer the brand, which would be the linear impact, but also access to the customers of other unavailable brands. This is what leads to the accelerated demand illustrated via a convex curve.

Let us examine the case when the loyalty is greater than zero. Here as the brand is more widely distributed, the inter store competition for "loyal" customers would intensify. This would often

lead to more discounting and in-store promotions of the popular brands. This in turn would increase the attractiveness of the widely distributed brands. Both of these potential causes would lead to an increasing market share with every additional level of distribution.

2. Market share leads to distribution.

We can also argue that market share leads to distribution. This happens because;

1) Retailers usually keep stock in proportion to the popularity of the brand (market share). This suggests that high market share brand get higher distribution support.

2) In the case of smaller shops with limited shelf space, the usual stocking rule is to carry the largest share brands (Farris et al, 1989). For example, small kirana stores carry only two or three popular brands.

3. Antecedents which leads to both Share and Distribution.

Manufacturer efforts like advertising, promotion etc., which we can term as "pull" factors affect both distribution and market share. For example, advertising could lead to increased consumer demand and willingness of the retailer to carry the product. Similar argument could be made for other "pull" items.

3.0 Shape of Relationships

We can deduce two things about the nature of the relationships.

First, logic and common sense requires that the equilibrium relationship between share and distribution pass through the origin. Zero distribution means zero share. Second, market share by definition to be less than or equal to % PCV. Further

statements require explicit assumptions about search loyalties, market segmentation by channel type and retailer behavior with respect to the number they stock. Almost all shapes are theoretically possible under some circumstances.

(a) Concave downward

We might observe this pattern if all outlets stocked about the same number of brands, but the manufacturers distribution policy selected these outlets with greatest potential for that brand i.e. a brands in-store share would be highest in the 'first' stores to be granted distribution. When markets are segmented by outlet type, this pattern is probably more likely. Other potential cause of a concave pattern might relate to in-store support. More outlets might mean that subsequent outlet would provide correspondingly less and less support. Also if there is strong search loyalty to the brand, subsequent outlets would add only nonloyal consumers and marginal returns to distribution coverage would be decreasing. Traditional attraction models would imply a concave relationship.

(b) S-shaped

Hartung and Fisher proposed an S-shaped relationship. When some portion of consumers are loyal and the attractiveness of a brand is associated with its availability, an S-shaped will often result. The combination of in-store support and some loyalty might also result in this shape.

(c) Convex Outward

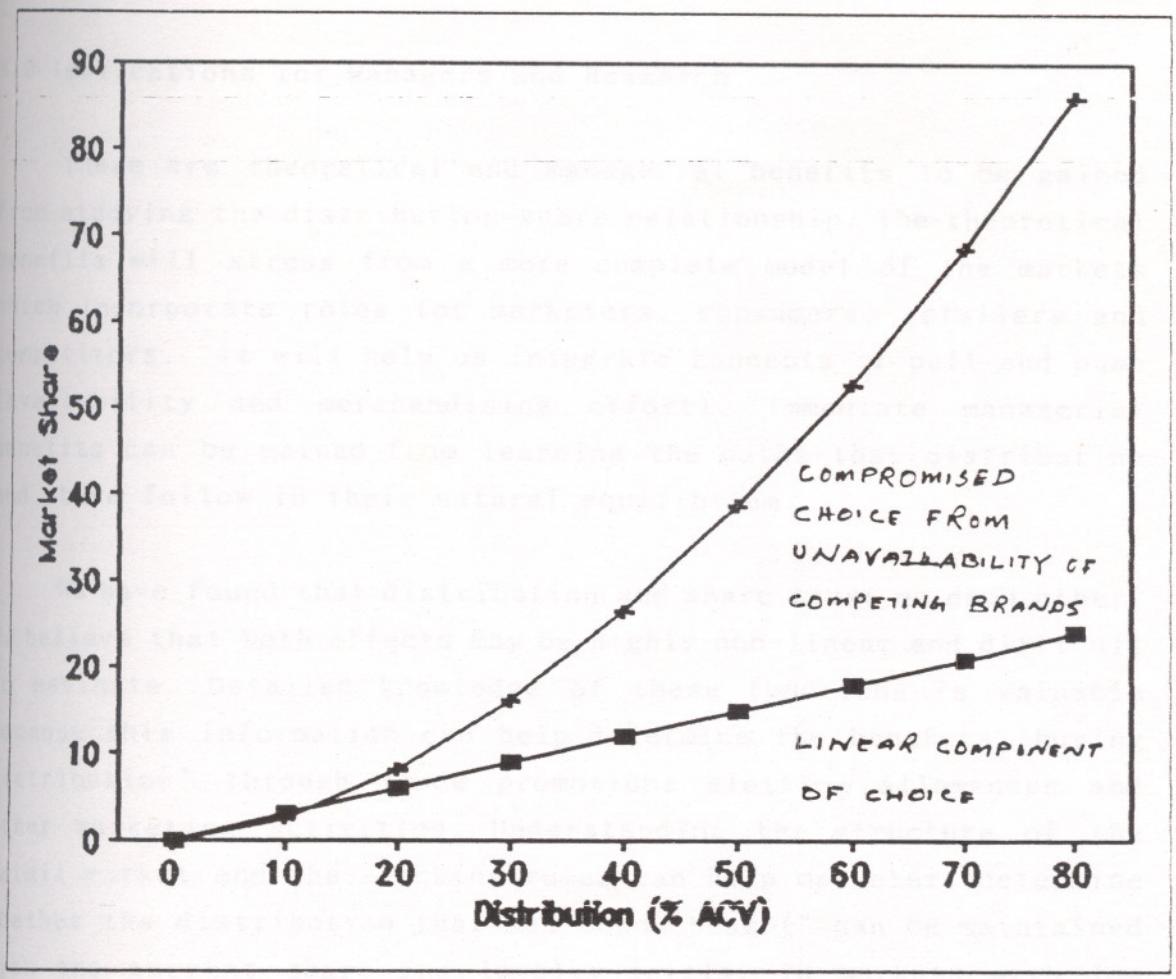
There are many arguments made for the convex distribution - share relationships (Figure-1.1).

1) Small-share brands are in double jeopardy of having small penetration rates and lower repeat rates. If small share products are not widely available, repeat purchase will be lower. Moreover, much of the sales volume of large-share brands come from

"compromised choice" due to unavailability of competing brands.

2) Asymmetric cross-elasticities, e.g. sales promotions for large brands can gain more sales from small-share brands than vice versa. If large share brands are available in almost all outlets, but small-share brands are in only a subset of stores, it follows that only a portion of the large-share brands volume is vulnerable to short term marketing actions by the small-share brands.

Figure 1.1 Market Share and Distribution (Zero Search Loyalty)



4.0 Empirical Evidence

There are a number of empirical studies which discussed the relationship between share and distribution. Results from studies by (a) Mercer for cigarette brands in Scotland and England (b) Farris et al (1989) for tortilla chips and instant coffee in the US (c) Borin et al (1991) with Japanese shampoo data showed convex relationship in general. For eleven of the twelve product categories the least-squared estimates yielded statistically significant results, indicating a convex relationships.

5.0 Implications for Managers and Research

There are theoretical and managerial benefits to be gained from studying the distribution-share relationship. The theoretical benefits will stress from a more complete model of the markets which incorporate roles for marketers, consumers, retailers and competitors. It will help us integrate concepts of pull and push (availability and merchandising effort). Immediate managerial benefits can be gained from learning the paths that distribution and share follow in their natural equilibrium.

We have found that distribution and share cause me each other. We believe that both effects may be highly non-linear and difficult to estimate. Detailed knowledge of these functions is valuable because this information can help determine the benefits 'buying distribution' through trade promotions slotting allowances and other marketing activities. Understanding the structure of the retail market and the stocking rules can help marketers determine whether the distribution that has been "bought" can be maintained with the current share and loyalty levels. In markets with low loyalty, incremental distribution as measured by % PCV can have an increasing effect on share levels.

Loyalty as measured by the consumers willingness to search for the brand, is a critical factor. Perversely, high loyalty means

that retailers will be eager to stock the product, but that the effect of distribution on share will be diminishing.

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